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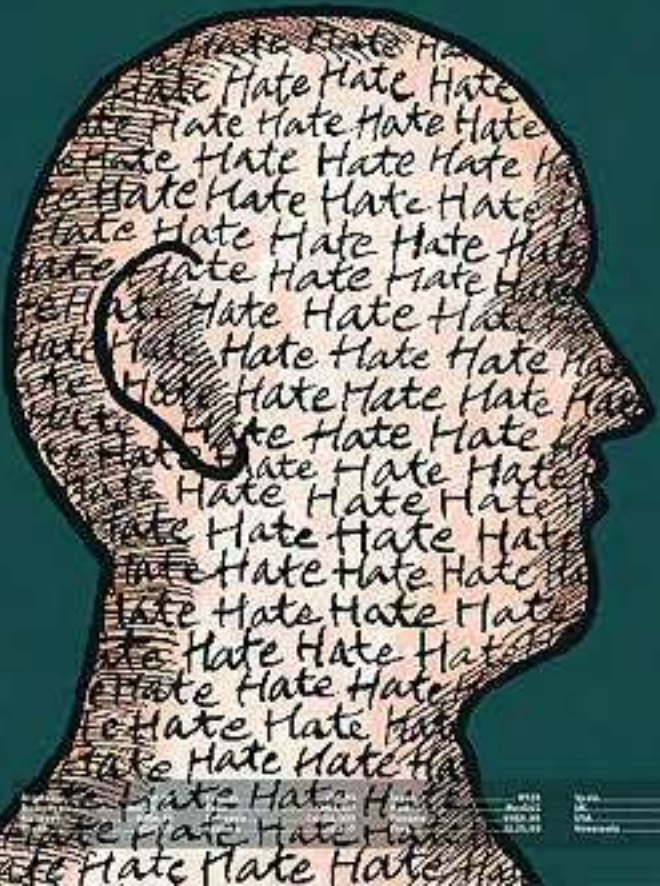
In Europe's midst



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Politics this week

Jul 14th 2005
From The Economist print edition

After the bombs

Getty Images

London struggled to return to normality, a week after four bombs killed at least 52 people and injured around 700. Evidence from the blasts and surveillance cameras gave police the first breakthrough in their investigation, identifying three of the bombers as British Muslims from Leeds or nearby and the fourth as a Jamaican-born Briton in his thirties. They became the first Britons to set off suicide-bombs in their own country.

See article

All of Europe fretted after the terror attacks in London. Interior ministers in the EU held an **emergency meeting in Brussels**. France and Italy re-imposed some border controls and Italian police detained 174 people in a crackdown on suspected Islamic militants.

See article

In the **Netherlands,** Mohammed Bouyeri, charged with killing the controversial film-maker, Theo van Gogh, confessed his guilt. He told the court that, were he set free, he "would do exactly the same."

France was fined a whopping *euro*20m ($24m) by the European Court of Justice for repeatedly ignoring fisheries rules stopping the catching of under-sized fish. It was the court's biggest ever fine.

Luxembourg voted by 57% to 43% to approve the EU constitution. The vote went ahead despite the noes in referendums in France and the Netherlands. The treaty requires unanimous approval.

Dark seam

At least 81 workers were killed in an explosion at a coalmine in Xinjiang. The incident was the latest in **China's** long line of mining accidents.

A crash involving three trains in **Pakistan's** Sindh province killed at least 133 people.

Sri Lanka's Tamil Tigers said that the government's military intelligence wing had breached a three-year-old ceasefire. Their warning raised fears of a return to civil war in Sri Lanka.

Kazakhstan turned over an Uzbek human-rights activist to the UN High Commissioner for Refugees, defying demands for his extradition by Uzbekistan's authorities.

Kirgizstan's acting president, Kurmanbek Bakiev, won 89% of the vote in a presidential election. Mr Bakiev was appointed in May after Askar Akaev was overthrown in a bloodless revolution.

See article

Something of the night

Reuters

Karl Rove, George Bush's top political adviser, came under pressure from Democrats to resign for talking to Matthew Cooper, a journalist from *Time* magazine, about a covert CIA official. Republicans responded that Mr Rove did not leak the name and has done nothing illegal.

See article

Michael Chertoff, the **homeland security** chief, outlined a major streamlining of his department. The creation of the agency, in response to the attacks of September 11th 2001, was the biggest restructuring of the federal government for 50 years, but it has been criticised for having too many overlapping responsibilities.

See article

The White House knocked $94 billion off its **budget-deficit** forecast, now $333 billion, for the current fiscal year, which ends on September 30th. Mr Bush touted his handling of the economy and said he would meet his target, initiated in 2004, of cutting the deficit in half by 2009.

Chief Justice **William Rehnquist**, who is suffering from throat cancer, was taken to hospital, prompting another round of rumours that he would resign from the Supreme Court.

Killing to provoke

Abdulkadir Yahya Ali, a prominent peace activist, was murdered by gunmen in front of his wife in Mogadishu, capital of **Somalia**. The attack, probably by Islamist groups linked to al-Qaeda, seemed calculated to encourage the country to descend into general anarchy.

The prevalence of HIV/AIDS in **South Africa** is probably even higher than had previously been thought. A report from the department of health suggested that over 6m (out of a population of 40m) are HIV-positive—1.5m more than another government agency had estimated in May.

Burundi continued its relatively peaceful transition from civil war to democracy. After winning parliamentary elections, the former main Hutu rebel group, the FDD, nominated its leader Pierre Nkurunziza to be the next president.

About 45 people, mostly women and children, were massacred as they made their way to a school in a village in north-east **Kenya.** The killers were from a rival tribe disputing access to nearby water and pasture.

The violence continued in **Iraq**. In the deadliest attack of the week, at least 27 people, most of them children, were killed in a car bomb in the south-east of Baghdad.

See article

Israeli troops stormed into Tulkarm, a city on the West bank, in a move against militants from Palestinian Islamic Jihad who carried out a **suicide**-**bombing** that killed five people in central Israel. Palestinian President Mahmoud Abbas said the attack was “stupid”, but condemned the Israeli response.

See article

A car bomb was detonated in **Beirut** beside the motorcade of the outgoing Lebanese defence minister, Elias Murr. The pro-Syrian politician was injured, but several others were killed in the blast.

Dennis the menace

Reuters

Hurricane Dennis, the first big Atlantic storm of the season, killed more than 60 people, including more than 40 in Haiti, 16 in Cuba and five in the United States. In Cuba, 15,000 homes were hit and citrus plantations were devastated, according to the government of Fidel Castro, which turned down an offer of $50,000 in humanitarian aid from the United States.

In the latest twist in **Brazil's** political-corruption scandal, José Genoino resigned as president of the ruling Workers' Party (PT) after an aide to his brother, a PT politician, was caught with $100,000 in cash stuffed in his underpants.

See article

Colombia's defence minister, Jorge Uribe, an outspoken conservative, resigned after facing much criticism in Congress. His replacement, Camilo Ospina, was the president's legal adviser.

See article

Mexico's former ruling Institutional Revolutionary Party (PRI) decided to hold an open primary to choose its candidate for next year's presidential election, which may help the claims of Roberto Madrazo, the party's president.

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Business this week

Jul 14th 2005
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Sentenced

Bernie Ebbers was sentenced to 25 years in prison for overseeing an $11 billion accounting fraud while chief executive at WorldCom. The fraud led to the telecoms firm's bankruptcy, America's largest, in 2002. Five other former WorldCom executives will be sentenced this summer. Mr Ebbers's sentence is the longest handed down to a boss in the recent high-profile trials of corporate scandals.

In a setback for prosecutors, however, the SEC decided not to try **Richard Scrushy** for perjury after his recent acquittal on fraud charges at HealthSouth, which he founded.

Problems worsened at **Volkswagen**. Peter Hartz, the German carmaker's personnel director, resigned as investigations continued into alleged misuse of company money to influence worker representatives on VW's supervisory board.

See article

The first court case brought against **Merck** over Vioxx, its pain-relieving drug for arthritis, began in Texas. Merck withdrew Vioxx last year after research indicated an increased risk of heart problems for some users. The company faces nearly 4,000 lawsuits, but says it acted responsibly.

Abbott Laboratories posted a 38% rise in net income for the second quarter, compared with the same period in 2004. The health-care and drugs firm's profit was helped by increased revenues from its treatments for arthritis: sales of Mobic tripled after Bextra, a rival drug from Pfizer, was withdrawn on safety grounds.

VNU, a business-information group based in the Netherlands that owns the Nielsen media-ratings service and *Billboard* magazine, agreed to pay $7 billion for **IMS Health**, an American company that collates worldwide information on drugs sales for the pharmaceutical industry.

Unocal sold **Northrock Resources**, a subsidiary that operates oil and gas assets in Canada, to **Pogo Producing,** a Houston oil firm, for $1.8 billion. The deal was announced shortly before Unocal's board was due to meet to discuss rival takeover bids it has received from Chevron and China National Offshore Oil Corporation (CNOOC).

PepsiCo reported a 13% rise in net profit, to $1.2 billion, for the quarter ending June 11th, compared with a year ago. The beverage and snack manufacturer recorded strong sales outside North America (where sales of sugary drinks have fallen somewhat), especially in China.

Investigating Intel

European Commission officials raided four of **Intel's** European offices as part of an antitrust investigation into the chipmaker. The investigation, begun in 2000, had stalled recently, but was revived by a lawsuit in America brought by Advanced Micro Devices, Intel's arch-rival.

See article

Qualcomm filed a lawsuit against **Broadcom** accusing the chipmaker of infringing its wireless-technology patents. The tit-for-tat move comes a week after Broadcom initiated antitrust litigation against Qualcomm.

Sprint, a telecoms firm, bought an affiliated mobile-phone company that had launched a lawsuit to halt

its $35 billion merger with Nextel Communications. Sprint will pay $1.3 billion for **US Unwired**, which will now drop its objection that the merger violated a deal with Sprint not to impede its market.

DreamWorks Animation issued its second profit warning in two months and called off a secondary share offer worth $500m. The studio, which specialises in computer-generated films, was overly optimistic about sales of “Shrek 2” DVDs.

Apple blossom

Latest figures from **Apple** showed robust growth at the computer and portable music group. In its third quarter (to June), sales rose by 75% and profit leapt by 425%, to $320m.

The Bank of Italy controversially gave the go-ahead for **Banca Popolare Italiana** to make formal its bid for **Banca Antonveneta**, a larger rival. Antonveneta was first targeted by **ABN Amro**, a Dutch bank that is hoping to be the first foreign institution to take over a large Italian bank.

Lego sold its Legoland theme-parks to **Blackstone** for *euro*375m ($453m). The private-equity firm will form a company to revamp the parks and other attractions that will be 30% owned by Lego. The Danish toymaker, famous for its colourful building bricks, has seen a slide in sales recently.

Must do better

The OECD warned the 12 countries of the **euro area** that unless they introduced structural reform, average annual GDP growth would drop to 0.9% between 2020 and 2030 and employment would fall by an annual average of 0.7% (over the same period). The 25-member EU is aiming for GDP of 3% by 2010.

See article

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Letters

Jul 14th 2005
From The Economist print edition

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Aiding Africa

SIR – The manic frenzy about increasing aid to Africa seems grossly out of proportion ("The $25 billion question", July 2nd). As donor countries have closed their key trade and labour markets, depriving developing countries of $500 billion a year to earn their own way in the world, aid expenditures probably have a greater net benefit to donor economies. Returning a fraction of that loss as aid assuages guilt and provides the means for continued interference in the developing world.

Moreover, aid in the recipient countries merely restores a tiny fraction of what is misappropriated from exchequers by local politicians and governments. Africa experiences capital flight of up to $90 billion a year and the external stock of capital held by Africa's political elites is $700 billion-800 billion. Along with missing billions in export earnings from oil, gas, diamonds and other minerals that are not openly accounted for, it then becomes unclear if Africa suffers from a poverty trap because of a lack of money.

A closer look at Africa's human-resource and immigration policies and the way in which African governments have driven out human capital that they desperately need because it happens to be visibly non-African, may provide a more meaningful, if politically incorrect, answer to what ails Africa than aid.

Percy Mistry
Oxford International Group
Chipping Norton, Oxfordshire

The health of nations

SIR – Your article on the need to sustain anti-retroviral therapy for the millions of people that suffer from HIV/AIDS raises a parallel issue, which is the appropriate distribution of humanitarian aid to developing countries based on health priorities ("Moving targets", July 2nd). International organisations channel aid mainly to prevent the spread of communicable diseases (HIV, tuberculosis, malaria and so on) regardless of the needs of a specific country. For example, most of the existing public-health projects in central and eastern Europe are focused on HIV/AIDS. But although HIV is emerging, it is not the biggest health problem facing the region. The main causes of death are non-communicable diseases such as cardiovascular diseases, strokes and cancer; road accidents cause the most deaths among the young. International groups should ensure that when they initiate and develop public-health projects they identify each country's specific needs. The current method of aid distribution is like placing the cart before the horse.

Dr Vladimir Lazarevik
Skopje, Macedonia

Selling drugs

SIR – That pharmaceutical companies are ignoring the humanitarian imperative to develop drugs and vaccines for "neglected diseases" because it is unprofitable is an all too familiar criticism (Survey of pharmaceuticals, June 18th). But the West is not immune to outbreaks of new infectious diseases, as the recent encounters with the viral "tropical" diseases West Nile and SARS have taught us. Approaching R&D from the view that diseases come in "families" and that a breakthrough in treating a tropical disease may lead to a breakthrough in one of its western cousins is one way to promote research without infusing ideology and may yield clues on how to approach emergent diseases. This is a prospect

that is both beneficial for developing countries and potentially profitable for industry in the West.

Mara Burney
American Council on Science and Health
New York

SIR – Your description of the "cosy relationship between doctors and drug companies" hit the mark. However, although you describe the "detailing" of doctors by salesmen from drugs companies, what of the other side of the equation—the physician who willingly allows himself to be detailed? Two years ago I gave up the drug-company habit. Drug pushers are no longer allowed in my crowded waiting room. I no longer get my patients hooked on "free" samples of costly non-generic, brand name drugs. And, while other physicians may enjoy the "customary trio of food, flattery and friendship" now I "just say no" to the free lunch and instead telephone my lovely wife during my lunch break. While she isn't 25 years old, blonde and eagerly willing to laugh at my stupid jokes, at least when she flirts with me I know it's for real.

Dr Russell Bird
Louisville, Kentucky

Gay pride

SIR – You take an unusually cavalier tone toward the gay community, which seems contrary to *The Economist*'s established pro-gay stance ("The slippery slope to bestiality", July 2nd). You purport to know that the majority of gay Americans are uninterested in marriage. But you back this arrogant assertion by quoting a bartender at a gay pick-up bar: "We want to have as much sex as we possibly can." The underlying assumption is that such an individual is representative of, and a legitimate spokesman for, the gay community. You surely would not have made a similarly offensive generalisation about blacks, Muslims or women. Homosexuals have been pigeonholed for far too long. It's time that the world, and especially a publication as sophisticated as your own, realise that homosexuals are a group as diverse in personality and outlook as any other.

Andrew Miller
Chicago

SIR – I find it curious that you put quotation marks around the word "husband" when referring to a recently married gay couple in the state of Massachusetts when you have previously made a vigorous call for people to embrace homosexual marriages ("The case for gay marriage", February 28th, 2004).

Alex Klaessig
Washington, DC

George Bush's hot air

SIR – George Bush has explicitly acknowledged that global warming is real and human activities are contributing to the problem ("Better than Kyoto", June 25th). That is progress of sorts, but the president is holding stubbornly to his position that greenhouse- gas emissions can be reduced without setting standards and timetables for measuring performance—a curious stance for someone who holds an MBA degree. His classroom work at Harvard Business School should have taught him that any enterprise must set targets if it's going to deliver anything of value. Mr Bush should review his textbooks, then develop a meaningful climate policy that sets measurable benchmarks for reducing greenhouse-gas emissions.

Jim DiPeso
Republicans for Environmental Protection
Seattle

Life is cheap

SIR – Reacting to your report that it costs 5,000 pesos ($93) to hire an assassin in the Philippines, Tom Young assures us his wife can have him put away for a maximum of 2,000 pesos (Letters, July 2nd). In a global context, this is still extortionate and inflationary. It may interest CAFTA enthusiasts to know that in Guatemala's Zacapa province, the lowest bid I have heard reported is 25 quetzales ($3.30).

Russell Seitz
Cambridge, Massachusetts

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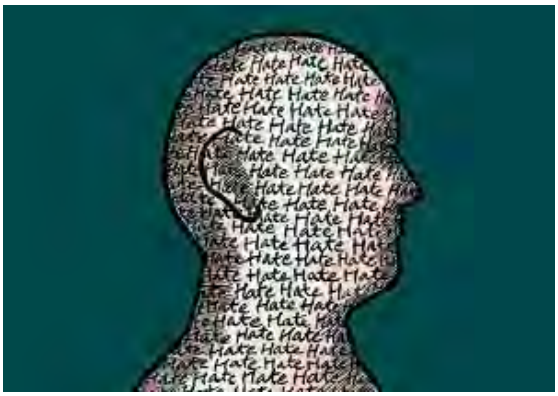
After the London bombs

In Europe's midst

Jul 14th 2005
From The Economist print edition

Four young British Muslims became zealots, and the zealots became suicide-bombers



HOW can one begin to fathom what is going through the head of a man who, in the name of God and without warning, sets out to kill as many of his fellow citizens as he can? Barely a week after British suicide-bombers tore the heart out of London's rush hour, taking dozens of innocent lives, it is hard to see anything more than sheer hatred. But Europe, which is home to some 20m of the world's Muslims, will have to look deeper into the *jihadi* mind than that. There is a clear threat of more terrorist attacks, and not only in Britain.

On the July 7th attacks themselves, a surprising amount is already known (see article). On July 12th British police announced their discovery that four young men carrying rucksacks packed with a specialised, military form of explosive had travelled to London. At least three of the friends seen smiling and laughing in closed-circuit television pictures at King's Cross station then blew themselves up on three Underground trains and a bus. Three of the men were from Pakistani families in northern England and the fourth was Jamaican-born, but all were British. One worked in his father's fish and chip shop. Police think the mastermind behind Britain's first-ever suicide-bomb remains at large, as do more potential bombers. If they are right, then the implication is that the London bombings were not just the act of isolated malcontents but a sign of the continued existence of a trans-national terror network.

The boy next door

Whether from such a network or from local groups, the threat of *jihadism* is being felt throughout Europe. In the Netherlands this week, Mohammed Bouyeri, a 27-year-old Dutchman of Moroccan descent, stood trial for the murder of Theo van Gogh, a film director whose work had attacked Islam's treatment of women. Mr Bouyeri was linked to the “Hofstad group”, some of whom were accused of wild plans to blow up Schiphol airport, the Dutch parliament and one of the country's nuclear reactors. In Italy, amid fears that the country faces attack, the government of Silvio Berlusconi plans to strengthen anti-terror laws (see article). In Spain, they are still mourning the victims of last year's Madrid bombs.

The protean threat of *jihad* in Europe poses a wider danger, too. Freer than they would be in the Middle East and North Africa, radicals can ship money and manpower from wealthy Europe to violent groups elsewhere. Would-be attackers bearing European passports—often “clean-skinned”, ie, unknown to western intelligence services—can more easily transport terror to the United States—as they did on September 11th 2001—than if they were known dissidents from Saudi Arabia or Syria. For everyone's

sake, therefore, Europeans need to stiffen their campaign against indigenous *jihad*. And that means concentrating on three things: the *jihadis*, the law and—most controversially—Islam itself.

What could possibly explain the journey that led four young Muslims from childhood in Leeds to mass-murder in London? The fact that the chosen method was suicide feels especially shocking, but probably should not. It was already the method used on September 11th, and was then the intended technique of a Briton called Richard Reid who converted to Islam and sought to destroy a passenger plane with a bomb concealed in his shoe. In 2003 two educated young men quit Britain to become suicide-bombers in Tel Aviv. That a desire for martyrdom is added to the desire to kill may reveal the intensity of feeling, or just desperation to make the attack succeed. Much more important is the urge to kill in the first place.

For every one of these footsoldiers of terror, tens of thousands of similar young men choose to lead uneventful and peaceful lives. Amid Turks in Germany, Algerians in France and Pakistanis in Britain, it is vain to look for a simple cause that determines the conversion to *jihad* (literally, struggle). But there are subtle patterns and tendencies (see article). Many are the children or grandchildren of immigrants, some of whom grew up huddled in what Robert Leiken, of the Nixon Centre in Washington, DC, calls “internal colonies”—ghettos cut off from the culture of their new homeland. Most are under 30; some are well educated. Although they may be middle class, their community is probably not. Often they have grown apart from their family: some might have drifted into petty crime, or an unIslamic taste for alcohol and women. Something then leads them to religion and thence radical voices preaching the Utopia of worldwide Islamic rule.

It is hard to intercept the wild career from misfit to Mujahideen precisely because it is so unpredictable. Some people blame the war in Iraq, but that is to confuse the means of recruitment with its fundamental causes. Al-Qaeda was busy bombing its way across the world before American tanks rolled into Baghdad. Atrocities in Chechnya and Afghanistan were the rallying call back then—and without Fallujah, would still be today. Iraq is a threat chiefly because it is a magnet and a training ground for foreign fighters. Hints at the withdrawal of troops only add to its potency.

A better response is to tighten the law at home. In the Netherlands, where some members of the Hofstad group were initially acquitted for all crimes but then rearrested, that will shortly mean increasing the powers of arrest and admitting evidence from the intelligence agencies and anonymous sources. In Italy it ought to mean fixing the country's hopelessly fragmented system of prosecutors and law-enforcement agencies. Across Europe, investigators need powers to inhibit terror financing and to trace networks of *jihadis* through e-mail addresses and mobile phone numbers. In Britain, where police already have broad powers, it should mean no more than the creation of new offences of planning terror and preaching violence. The aim must be to enhance surveillance and the workings of justice without falling, as America has with Guantánamo Bay, into the trap of betraying the fundamental principles of the law or of civil liberty.

There is also a good case for taking a harsher line on the firebrands who preach violence and murder. Van Gogh's killer was the disciple of a Syrian imam. In London, which critics disparage as “Londonistan” for its willingness to accept dangerous radicals, Abu Hamza al-Masri, a one-eyed imam at the Finsbury Park mosque, preached to Zacarias Moussaoui, the would-be September 11th hijacker.

It would be wrong, though, to seek to exclude or lock up every imam who has uttered a provocative word. The struggle against the *jihadis* is the struggle of European tolerance against the closed mind of bigotry. It is a struggle that will ultimately depend upon Islam itself to guide its young men towards good deeds rather than the security services to identify those who have turned bad—vital though that plainly is. British Muslim groups have reacted well by vocally and unequivocally condemning the terrorists. It would be even better if they could now lead public marches against the men of violence and, within their communities, a public debate against *jihadism*.

For what is needed is a free and open debate within Islam, one in which the modernisers emulate the tactics of the extremists in a crucial way: that they exploit Europe's free flow of ideas in order to win the argument against those keener on medieval practices and violence. Ultimately, that will be what makes *jihadis* empty their heads of hatred.

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Brazil's corruption scandal

Fall from grace in Lulaland

Jul 14th 2005
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A popular president is left politically wounded

AP

Get article background

WHEN he was elected as Brazil's president in 2002, Luiz Inácio Lula da Silva promised to be much more than just another politician. His own biography made that clear: born in poverty, he rose from shoe-shine boy to trade-union leader to founder of the Workers' Party (PT), the largest left-wing force in Latin America. Lula and his party not only stood for social reform but claimed, from their experience in local administration, a monopoly on clean government in Brazil. To this they added a last-minute conversion to economic orthodoxy. The mix of economic rigour and reformist politics seemed a promising one for Brazil, the world's fourth-largest democracy but its third most unequal country and one with an unhappy tradition of political corruption (see article). Hope stirred across Latin America; around the world, Lula attracted the kind of excited reverence reserved for popes or aged pop stars.

Such expectations make recent revelations of corruption in Brazil all the more shocking. These began with a videotape showing a manager at the federal postal service taking a bribe, allegedly on behalf of his political boss, a government ally. That boss retaliated with a bombshell: senior figures in the PT, he claimed, were paying a monthly stipend to dozens of members of Congress from allied parties in return for their votes. Much of the money appears to have been channelled through a publicist who received many contracts from government bodies—and who was then found to have repaid part of a bank loan taken out by the PT. In the latest, farcical, twist, on July 8th an aide to the brother of the PT's president was arrested at a São Paulo airport after police found that he was carrying $100,000 in dollar banknotes stuffed down his underpants.

This tale is worthy of one of the soap operas for which Brazil is famous. It also offers much circumstantial evidence that once in power, the Workers' Party, the avatar of clean government, began to finance itself and to buy its allies' loyalty by systematically skimming money from state companies. If so—it is hotly denied—did Lula know this? If he did not, as his advisers insist, he looks to have been badly out of touch.

A congressional inquiry—and prosecutors—may eventually confirm or refute the allegations. For now, Brazilians seem reluctant to believe the worst of their president. Lula's popularity rating stands at 60%, unaffected by the scandal. The government's rating has held up, too. That is thanks largely to the economic policy of Antonio Palocci, the finance minister, who has delivered stability and moderate

growth. Investors, too, seem unfazed: Brazil's currency, the *real*, this week climbed to its strongest level against the dollar for more than three years.

But the scandal has wounded Lula—and especially his party. It has forced the resignations first of José Dirceu, his chief of staff, of a dozen senior officials, and of the entire top echelon of the PT. Lula has felt obliged to give more cabinet jobs to his coalition partners. There is (still premature) talk that Lula may not seek a second term in next year's election, although polls show he stands a good chance of winning one.

As for the PT, its activists are seething at what they see as a betrayal of their principles by a temporising leadership—a betrayal for which they already berate Mr Palocci and his economic policy. That will be the interpretation, too, of those elsewhere in the region who see in Venezuela's Hugo Chávez a more uncompromising standard-bearer of the left.

An unholy alliance to milk a swollen state

Yet that reading of the scandal is mistaken. Rather, its roots lie in the arrogant naivety of a party whose acceptance of capitalism and the compromises of democracy was all too recent. Several of Lula's fallen lieutenants appear to have carried into government two Marxist notions: that a self-righteous end justifies unholy means, and that the party is superior to the state. That seems to have led to a fatal blurring of the roles of party and government, and a cynical exploitation of the state for political ends. To blame, too, is the PT's residual commitment to a big state—rather than a nimbler one—as a solution to social problems. This chimed with the appetites of the opportunist allies the party was forced to seek to obtain a majority in Congress. These included reactionary elements who have long seen government as a business to be exploited.

If the right lessons are drawn, Brazilian democracy, and maybe even the PT itself, could yet emerge stronger from this sorry affair. Instead of stuffing the state with political appointees, the PT should accept the value of a career civil service. And Lula could make a serious attempt to rally support for long-overdue political reforms, including more openness on campaign finance. The left in Brazil has long criticised the country's “elites” for confusing public and private interests. The critique applies just as much when the elite concerned comes from the left. It is time for it to clean up its own act.

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Chinese history

The admiral of what might have been

Jul 14th 2005
From The Economist print edition

What the exploits of Zheng He, who set out to sea 600 years ago, say about China and Europe

Imaginechina

COUNTER-HISTORY is seductive stuff. What fun to ponder what might have happened at Waterloo, if it hadn't rained heavily on the night of June 18th 1815, or if Xerxes had won at Salamis. Such speculations, it is true, are merely that; but they can still be illuminating. In that spirit, consider the voyages of Admiral Zheng He, as the 600th anniversary of the first one is celebrated in China this week.

A Muslim eunuch from Central Asia, Zheng persuaded a Ming emperor, Zhu Di, to finance the most extraordinary expeditions the world had ever seen. Between 1405 and 1433, Zheng and his men beat their way down through all of South-East Asia, to both coasts of India and finally to Africa's eastern coast, at least as far as Ethiopia. His journeys towards the Cape of Good Hope took place almost a century before Bartolomeu Dias first rounded it in the opposite direction, and the mightiest of his ships, at close to 500ft long, was four or five times the size of anything the Europeans could build at the time. His fleets were up to 300 strong, carrying 20,000 men.

Equipped with such technology and organisation, China might have discovered Europe long before Europeans sailed into, and in time came to dominate, China: one recent author, indeed, argues that it did so. But Zheng's seventh voyage was his last. The sea-going eunuchs fell from favour (Zheng's missions were staggeringly costly) and by 1500 it was a capital offence to go to sea in a two-masted ship without permission. China had embarked on a long period of isolation like that imposed on Japan by the Tokugawa shogunate in the 17th century. With the mothballing of Zheng's ships, just as Europeans were beginning their own voyages of discovery, came the beginning of the end of China's centuries of superiority. Had Zheng been allowed to continue his voyages, might the advantages of trade and discovery have come to seem more obvious? Might China have avoided decline? Or was, instead, the recall of the fleet a symptom of a deeper malaise in Chinese society? In competing Europe, after all, Columbus was able to flit from court to court until he finally found a backer for his expedition of 1492. For Zheng, it was the emperor or no one.

But such speculation is perhaps to miss the real story. By celebrating Zheng's exploits this week, China's leadership was reminding the perceptive not just that the western Pacific and the Indian Ocean were once a Chinese lake, or that Chinese naval technology once far outstripped that of the West, but that both these things may one day be true again. Either that, or it is a bizarre coincidence that the main celebration of Zheng's first voyage took place on the very day after Condoleezza Rice, the American secretary of state, left Beijing. Perhaps, though, the West should not worry too much. There is, after all,

every chance that China's heavy-handed officials, as intolerant of non-conformity now as under the Ming, will once more contrive to scuttle the ships of its visionaries.

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The European Central Bank

Less bashing, please

Jul 14th 2005
From The Economist print edition

It is time to defend the ECB—and to tell it to grow up

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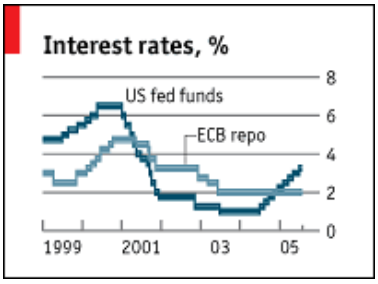

THE European Central Bank is everybody's favourite scapegoat for the euro area's feeble growth. The 12 countries' GDP grew by only 1.3% in the year to the first quarter, one-third the pace in America, and yet still the ECB left interest rates unchanged last week, at 2%, for the 25th month. No wonder many people think the bank is run by inflation fanatics, unwilling to cut interest rates regardless of the lack of growth. ECB, it is joked, stands for "exceedingly cautious bunglers".

Yet the bank has actually done a better job than is generally thought. Many critics (including at times this newspaper) have argued that the ECB has been too slow to cut interest rates. In fact, by most measures its policy has been fairly loose (see article). Currently, real short-term interest rates are close to their lowest for more than 25 years, and long-term bond yields, which affect demand just as much as short-term rates, have fallen by more than a percentage point over the past year. Even the euro, which surged in 2004, is now (in trade-weighted terms) just below its level when the single currency was launched. So it is ludicrous to suggest that monetary policy is strangling Europe's economies. The blame ought to be laid on tight fiscal policies and a host of structural rigidities.

The ECB also deserves credit for the way that it managed the largest merger in history, involving no fewer than 12 central banks, and introduced a currency across those same countries, simultaneously providing a firm anchor for inflation expectations. Before the euro succeeded, there was widespread concern that it would be hobbled by high inflation.

But this is not to say that the ECB is perfect: far from it. The bank's problems lie less in its actual interest-rate decisions than in its poor public communication, its apparent lack of flexibility and its excessive independence, all of which make it an easy target to attack.

The constantly hawkish tone of its monetary policy statements give the impression that the ECB focuses only on inflation and does not care about growth. Yet several studies suggest that there is little significant difference in the way the ECB and America's Federal Reserve respond to changes in output and inflation. There is, however, a big difference in their respective language, and this matters. If you hold interest rates low, but keep warning, as the ECB has done, about the need to remain "vigilant" against the threat of inflation, then neither households nor companies are likely to rush out and spend.

The ECB's excessive degree of independence also adds to its hair-shirt image. In most other countries with inflation targets, politicians, not bankers, define the goal. The ECB sets its own target, and the effects of this freedom have been worsened by its formula of "below, but close to, 2%", which has rightly been ridiculed. Since inflation has in fact been 2% or above most of the time, the ECB might more sensibly express the target as a range around a mid-point of 2%. The Maastricht treaty says that the ECB cannot take instructions from finance ministers. But there is nothing stopping it from asking for their formal blessing for a revised target. If ministers accepted even that limited responsibility for the target, they would then find it harder to criticise the bank's interest-rate policy.

The bank's accountability would also be increased if it were to publish minutes of its meetings. The regular press conference, a ritual in which journalists try to force Jean-Claude Trichet, the ECB's wily president, to say things he doesn't want to utter, is no substitute. Minutes would help to show that different views were discussed at a meeting, whereas today's bland announcements imply that decisions were unanimous, which can make the bank appear out of touch. Likewise, it is surely time for the ECB

to adopt majority voting. At present it requires a consensus among all 18 members of its governing council, which undoubtedly militates against change.

No more sucking of thumbs

The ECB boasts that low government bond yields are evidence of its success in establishing its anti-inflation credentials. But this definition of success is too narrow. The pursuit of price stability is a means to an end (to achieve maximum sustainable growth), not an end in itself. While the ECB's prime task is price stability, it is also legally charged with supporting growth. Last year it could have cut interest rates to offset the impact of the rising euro; today it should stand ready to ease monetary policy to cushion the impact of structural reform and fiscal discipline. The ECB is no longer an infant central bank. Having gained its credibility, it now needs to make better use of it. In short, it is time for the ECB to grow up.

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Scandal at Volkswagen

Together they stand

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Germany's "co-determination" rules should go

EPA

IT IS important to keep the unfolding scandal at Volkswagen (VW), Germany's biggest carmaker, in proper perspective. Embarrassing though a string of salacious revelations has been, this is no replay of the enormous meltdowns in America at Enron or WorldCom. Nor does it yet have any of the elements of accounting and other fraud that enmeshed Europe's Ahold and Parmalat. Rather, it seems to be the result of specific weaknesses at the carmaker—though you would not necessarily know that from the reaction by Germany's politicians and business leaders. At the heart of VW's problem, they have suggested, is Germany's system of "co-determination", under which companies with more than 2,000 workers must draw at least half of their supervisory board members either from the workforce directly or from trade unions. The government is setting up a commission to explore the issue.

It is easy to see why co-determination is getting the blame. VW's managers appear to have been so dependent upon keeping the support of worker and trade-union representatives that they may have crossed ethical and financial lines. Among their alleged transgressions, they may have allowed deals that exchanged sex for votes on the company's supervisory board. Machinations, some involving figures right at the top of German politics, seem to have become more important than machines (see article). This, supposedly, happened because of the balancing act required by co-determination. Yet that is misleading. Co-determination does need reform, but VW is a bad case for the prosecution. Its problem is that management has lost its sense of direction. Co-determination's problem is quite different.

Co-determination has for decades been an important part of the overall system by which German companies have been run. The original reasoning was that involving labour in corporate decisions was a good way to avoid the industrial tensions that dogged neighbours such as Britain and France. But times have changed, and Germans worried about joblessness and low growth are now wondering whether co-determination has become too cosy, in effect blocking firms from making the decisions they need to meet tougher times.

The background for this debate is a discouraging one for business. Companies are on the defensive as they have tried to stay competitive by cutting costs and shifting production to cheaper countries. Even though this has been quite successful—exports remain strong—unemployment is high and has been little helped by snail's-pace reform of the country's labour markets. Popular sentiment fears the impact of international investors, who were recently attacked as "locusts". So co-determination looks like the

latest convenient example of what is wrong with business in Germany. Should the legal requirement for worker participation now be abandoned?

The answer depends on the extent to which co-determination has really been an obstacle to much-needed reform at German companies. Sometimes, it is true, it has been an effective way of balancing the interests of shareholders, managers and labour. Indeed, at big companies it has often provided a flexible forum for cutting deals and agreeing directions that would have been impossible to conduct in open debate. In public rhetoric, big unions such as IG Metall, which represents 2.4m metal and engineering workers, have been implacably opposed to changing working practices, for instance, but have been more far reasonable in private.

But even though co-determination has sometimes helped to persuade unions and workers to accept change, it has sometimes served to thwart it too. The strict requirement that fully half of the supervisory board must be drawn from the ranks of labour seems increasingly outdated. For instance, German business leaders have cited co-determination as a reason for foreign companies to avoid buying German ones, or to keep their headquarters outside Germany.

So why not scrap that rule and let companies determine the level of labour involvement they want in their management? That way, it can be tailored to how useful it actually is. Some will opt for plenty of participation, albeit perhaps below today's level: others will choose much less, and perhaps also shrink their supervisory boards to a more wieldy size. But at least firms would be free to decide for themselves how far they wanted to reform their management systems. That is the kind of specific reform that Germany needs. And the labour movement would not be out in the cold: also by law, German companies must have works councils. Unwittingly, by its haplessness VW might just trigger a useful change.

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America's great sorting out

The missing rungs in the ladder

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America has a small problem with class—and a bigger one in its schools

ONCE again, America is changing—and in surprising ways. Much is made of how the United States is now a divided country, the “50:50 nation” split equally between red Republican states and blue Democratic ones, where the last two presidential elections were decided by relatively small margins, first in Florida and then in Ohio. Yet if you look beyond party politics at some of the things that have distinguished America—mobility, immigration, meritocracy, volunteerism—a more confusing image emerges: not so much one of division but of a centrifuge. As our survey in this issue argues, America is spinning into lots of different bits.

Don't panic. To a large extent, this is the way that America has always worked. It is a country that has specialised in reinventing itself, sucking in new arrivals and hurling them round the world's most dynamic economy. Somewhere between Ellis Island and the car factories of Detroit (or nowadays between the Rio Grande and a bungalow in Riverside) the newcomers are Americanised. And many Americans keep on moving, looking for the next big thing, a better job, a mate or just an easier commute. This year, around 40m Americans—a wagon train the size of Spain—will move house.

This dynamism helps explain why America has been growing so much faster than Europe. The difference now is that the process is becoming slightly more clumpy: successful Americans are sticking together more than they used to. Once again, this is not a question of “two Americas” leaping off the map: there are plenty of boom-towns and, especially, boom-burbs in every state. And, no, there is not an obvious racial dimension either: many blacks are still doing badly, but Latinos, who will account for one in five Americans by 2030, seem to be being assimilated just fine. But it does reinforce a fear: is America beginning to develop more of a class system?

If the American dream is based on anything, it is on the idea that anybody can make it to the top. Does that square with the past two elections, where George Bush (Andover and Yale) has seen off Al Gore (St Albans and Harvard) and then his fellow Skull and Bonesman John Kerry (St Paul's and Yale)? The 2008 race might even be another dynastic contest between Mr Bush's brother and his predecessor's wife. More worryingly, there has been a flood of statistics suggesting that income inequality is now reaching levels not seen since the Gilded Age in the late 19th century.

In 1979-2000, the real income of the poorest fifth of American households rose by 6.4%, while that of the top fifth rose by 70% (and of the top 1% by 184%). As of 2001, that top 1% nabbed a fifth of America's personal income and controlled a third of its net worth. Again, this would not necessarily be a

cause for worry, as long as it was possible for people to work their way up and down the ladder. Yet various studies also indicate that social mobility has weakened; indeed by some measures it may be worse than it is in crusty old Europe.

America fixed its class problem in the Gilded Age by becoming more meritocratic: money was poured into education, and ladders were created for young bright children to ease past the robber barons' doltish offspring. America's "problem" nowadays—and it is really a triumph—is that this meritocracy is working almost too well. Put crudely, educated people are marrying each other and pouring money into their children's education to make sure they go to the same universities. That helps explain why American universities are so much better than their peers; but only one in 30 students at the most selective ones come from the poorest quarter of households.

A new deal for schools

So the challenge is different. But the solution once again is to be found in the education system—particularly America's rotten public schools. Republicans are, generally speaking, reluctant to spend more money—partly because they represent people in richer school districts and partly because so much cash has already been wasted (America spends much more than other countries). Meanwhile Democrats, enslaved to the teachers' unions, are generally unwilling to countenance reforms such as school vouchers and testing; and they are also keener on affirmative action, the system of race-based preferences which makes universities less competitive and keeps the poison of race in a debate which is best focused on income.

This is depressing. But a political solution of sorts is going begging. Republicans should be willing to spend more cash on schools in poor areas (including on teachers' salaries) in exchange for the Democrats accepting structural reform. The No Child Left Behind Act, which introduced some forms of testing and the daring possibility of shutting down some bad schools, was an important step forward. But more is needed. Otherwise two Americas really will start to jump out off the map.

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Muslim extremism in Europe

The enemy within

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AFP

What turns a man into a terrorist, and what can be done about it?

THE residents, both white and Asian, of certain quiet suburbs of Leeds, in northern England, were understandably confused by the news that their neighbours had caught a train to London and brought mayhem to the capital. Some described the bombers as ordinary young men whose interests did not go much beyond football and cricket. But one suspect was said by a neighbour to have found another solution to suburban boredom—a long trip to Pakistan and Afghanistan, and a chance to be trained in the arts of terror.

Two related questions haunt Britain, and Europe, in the wake of the London attacks. First, what is it that prompts a small minority of the continent's Muslims to shift from discontent or personal frustration to active terror? And second, was the attack on London indeed an act of home-grown terror, or an atrocity initiated by people in some distant war zone who had a grudge against Britain? The Leeds arrests, while impressively swift and a credit to the police (see article), have proved there is no easy answer to these questions. In an age of globalised ideologies, globalised communications and porous borders, there is no real distinction between domestic and foreign threats.

Even if everyone involved in terrorising London turns out to have been British-born, it is clear that the bombers had access to sophisticated explosives, not easily available in suburban Yorkshire; and, more important, that they were influenced by ideas, images and interpretations of Islam that would continue to circulate electronically, even if every extremist who tried to enter Britain were intercepted. So the best that terrorist-hunters in Britain and elsewhere in Europe can do is to trace how disaffected people from their own tranquil suburbs form connections with ideological mentors, and ultimately terrorist sponsors, who live overseas, and how those godfathers find recruits in western countries.

An example of such sponsorship is the recent report that Abu Musab al-Zarqawi, the mastermind of terror in Iraq, has built up a network of supporters and volunteers in Spain. For a case of mentoring, consider the trial that began in Amsterdam this week of Mohammed Bouyeri, who has confessed to killing Theo van Gogh, a Dutch film director who had enraged Muslims with his fiery attacks on Islam.

Mr Bouyeri, who refused at his trial to recognise the Dutch legal system and came to court clutching the Koran, is linked to the Hofstad group of Dutch youngsters, some 15 of whom are on trial separately. They began as a group of second- or third-generation Dutch Muslims, mostly male and in their late teens or early 20s, who became discontented with their country and surfed the internet for ideas. At least at first, this and other groups of disaffected Dutch Muslims were pathetically unsophisticated. One was caught in 2003 trying to make a bomb—drawing on tips from a website, but using the wrong

fertiliser. At some point, however, the group found a mentor who was more sinister and sophisticated: a Syrian jihadist-recruiter who came to the Netherlands and coached them in doctrine.

In Britain, too, security services have concluded that these days, connections between local youths and foreign godfathers are usually formed at the youths' behest. To a surprising extent, the onus is on individual zealots (or groups of them) to find mentors. Al-Qaeda does not actively seek recruits for the jihadist cause, partly because that would attract the attention of the security services and partly because, ever since the destruction of its bases in Afghanistan, it has—in the view of well placed British observers—been too loosely organised to recruit systematically.

This highlights one of the main difficulties of the “war on terror”. In 2001, when America and its allies responded to the attacks on New York and Washington by declaring war on the al-Qaeda network, it seemed an identifiable adversary, with bases, financial structures and a leadership that could be singled out and struck. Since then, it has become something much looser: not even a “franchise”, as it is commonly labelled, but more an ideological community, held together above all by electronic connections, which seeks inspiration from a common source.

Radicalism-by-internet

What prompts young British, French or Dutch Muslims to look for such mentors? Senior British insiders say that, although paths to extremism vary widely, they tend to follow certain social and psychological patterns. Frequently, a young Muslim man falls out of mainstream society, becoming alienated both from his parents and from the “stuffy” Islamic culture in which he was brought up. He may become more devout, but the reverse is more likely. He turns to drink, drugs and petty crime before seeing a “solution” to his problems—and the world's—in radical Islam.

Olivier Roy, a French writer on global Islam, has described “neo-fundamentalism” (which may or may not be violent) as a broad reaction by Muslims in western countries against their families and background, as well as against their host societies. As Mr Roy portrays them, such Muslims have abandoned the food, music and customs of the “old country” but still feel repelled by the ethos and values of the “new country”. Adrift from both, they are attracted by a simple, electronically disseminated version of the faith which can readily be propagated among people of all cultures, including white Europeans.

Another French “Islamologue”, Antoine Sfeir, has identified relations between the sexes as a big factor in the re-Islamisation of second-generation Muslims in Europe. Because young Muslim women often do better than men at adapting to the host society (they tend to do better at school, for example), old patriarchal structures are upset and young men acquire a strong incentive to reassert the old order.

In many cases, say British specialists, groups of young, disaffected Muslims goad one another down the path to extremism. People who may be bound together by ethnicity, worship or criminal activity develop a common interest in the suffering of Muslims across the globe. Websites and satellite television channels then supply visual images and incendiary rhetoric from any place where Muslims are fighting non-Muslims. The favourite war used to be Chechnya; now it is Iraq.

As an incipient extremist group grows more obsessive, and its weaker brethren fall away, hard-core members often withdraw from the mosques. Indeed, a big recent trend in European Islam, says Mr Roy, is the mass withdrawal by militants from mosques that are under surveillance. This has made extremism even more elusive, and the internet's influence even greater. To a large extent, “the internet has replaced Afghanistan” as a source of training and inspiration for militant Muslims, says Stephen Ulph, a scholar working for the Jamestown Foundation, an American think-tank.

Through the web, even dead al-Qaeda fighters live on, says Mr Ulph. On one website that ceased operations last year (but has several imitators), it was possible to read the writings of senior, recently slain al-Qaeda men on everything from physical training to guerrilla tactics.

AFP

Any of these might help, too

A group of young Muslims will often travel quite a long way down the road to violent *jihad* before meeting anybody with terrorist expertise. Some never find the contacts they seek, and resort to their own devices; only occasionally does this have deadly results for anybody besides themselves. One example of such amateurism is that of two Moroccan men from the Dutch city of Eindhoven, Ahmed el-Bakiouli and Khalid el-Hassnaoui, who tried to enter Afghanistan in December 2001 in the hope of fighting some Americans. Having failed, they went to Kashmir, where they were swiftly killed by Indian security forces. In Britain, several terrorist plots uncovered since 2001 have been striking for their incompetence and lack of outside expertise.

Things become far more dangerous, of course, when committed radicals come into contact with veterans of wars in Chechnya and Bosnia, or of the Afghan training camps where several hundred Britons are believed to have been schooled. These veterans either have the know-how to plan an atrocity, or can find somebody who does, and it is under their influence that hopeless missions can turn deadly. Whether this happens or not is often a matter of chance. Take the Egyptian Mohammed Atta and other members of the “Hamburg cell” that plotted the September 11th attacks. They were drawn into mega-terror after meeting someone who introduced them first to an al-Qaeda operative in Germany, and then to masterminds in Afghanistan. If this had not happened, the Hamburg group might have ended up as cannon-fodder in Chechnya.

Profiling the would-bes

These patterns of self-recruitment and self-radicalisation are a headache for security services, who have no easy way to infiltrate close-knit, local groups that operate at first without foreign help. But in the Netherlands the intelligence services reckon they have identified three broad categories of people from which actual and would-be terrorists are drawn: recent arrivals, second-generation members of immigrant communities, and converts.

Recent arrivals are often intensely involved in—and in a few cases, protagonists of—bitter ideological and ethnic conflicts in their home countries. During the 1990s, Algeria's internal bloodbath—which pitted a secular, military regime against its armed Islamist opponents—was exported to France, culminating in bomb attacks on the Paris metro. (Some of these Islamists, to French disgust, later found refuge in London.) Among recent Muslim immigrants to Britain, many are deeply embroiled in the internal conflicts of south Asia—including intra-Muslim squabbles like that which divides the Barelvi form of Islam, followed by most Pakistanis, from the more purist Deobandi tendency which gave rise to the Taliban movement.

While most followers of the Deobandi line, which stresses the brotherhood of all Muslims over national or civic ties, are perfectly peaceful, their doctrine can inspire extremism. In the same way, violent extremists from the Arab world often share ideological roots with Saudi conservatives, or opposition-minded Egyptians, who are far from being exponents of generalised violence against soft western targets. Whether they like it or not, European security services are having to learn these fine

distinctions.

The vast majority of “white” converts to Islam adhere to forms of the faith that eschew violence. But some of them turn to violent Islam in a spirit of alienation from society, or personal bitterness. Some are “rescued” from a life of petty crime; quite a few, like the shoe-bomber Richard Reid, are touched in prison. Lacking any sense of Islamic tradition, and perhaps eager to prove themselves to their new peers, they are susceptible to extremism.

On the other hand, because the path to extremism so often involves the renunciation of everything in one's own background, material comfort and a liberal upbringing seem to be no bar to the development of a terrorist. Ahmed Omar Saeed Sheikh, a young Briton of Pakistani origin who is believed to have masterminded the kidnapping and murder in Pakistan of an American journalist, Daniel Pearl, was privately educated and studied at the London School of Economics. At least one of the London bombers identified this week seems to have come from a middle-class background. Whatever motivated the two Britons who became suicide-bombers in Israel in 2003, it was not material want.

Nor does the story of the Dutch Islamist, Mr Bouyeri, suggest any easy correlation between suffering and the impulse to crime. The killer had suffered setbacks at university, and had been unsuccessfully involved in trying to set up a youth club. In 2002 his mother died, his father remarrying soon afterwards. But as one specialist on the Netherlands points out, if such problems were enough to turn a youngster into an assassin, most young Dutch Muslims would be loading their guns.

On the evidence of most European countries, adequate material and social conditions do not always stop people becoming terrorists. But the reverse may hold good: if people are economically deprived or socially excluded, the pool of potential killers and bombers will grow.

In the highest levels of the British government, the dominant thinking is that economics does matter. If this is right, Europe's problem is obvious. Even in Britain, where anti-discrimination laws are relatively stringent, Muslims tend to be poor. Of all religious groups, they are the least likely to own their own homes. They are also the least likely to hold professional jobs and the most likely to be out of work. Just 48% of British Muslims reported that they were economically active in 2001, compared with 65% of Christians, 67% of Hindus and 75% of those who professed no religion.

Lack of jobs in the areas where Muslims have settled is part of the problem, but another reason is that women are less likely to do paid work. Four out of ten look after home and family, compared with little more than one in ten women in Britain as a whole. In a sense, the Muslim household is resilient—many fewer children are brought up in one-parent families than is the case among non-Muslims—but there is, literally, a price to be paid.

Britain's approach to tackling domestic extremism has sought to mix vigilance with openness, on the principle that militants are least dangerous in places where they and their followers can be closely watched. The domestic intelligence service, MI5, has expanded and moved its lens away from Irish terrorism; these days, about half its attention is directed at Islamist activities. But nobody, not even the spooks, believes wiretaps and infiltrators alone are enough to defeat Islamist extremism. To achieve that end, Muslims must learn to police themselves.

The perils of co-operating

An official outreach campaign accelerated in 2001, a year that saw not only attacks on America but also riots involving South Asian Muslims in northern English towns. After a tentative start, meetings between mosque committees and local police officers have become routine. Muslims do not like to admit it, but an implicit quid pro quo is involved: heightened protection in return for information and good publicity. The trade-off was illustrated on July 7th, the day of the London bombings, when the Metropolitan Police deployed scarce officers to defend mosques. Police in Leeds, who had to close a mosque on July 12th as they combed the bombers' neighbourhood, helped people find alternative arrangements for worship.

Muslim clerics did their part by denouncing the London bombings, and by reminding co-religionists of prohibitions against the taking of innocent lives and of the importance of co-operating with the police. The point, according to Mohamed Naseem, chairman of Birmingham Central Mosque, was to inform misguided members of the Muslim community of the correct religious teaching. As for those who choose to ignore it, says Mr Naseem, “they are on their own.”

That is, of course, the problem with expecting mosques to police Muslims. Extremists may be denounced from the pulpits, but that does not prevent them meeting like-minded folk in living rooms. Similar

problems dog the British government's outreach efforts. It has chosen to deal mostly with the Muslim Council of Britain (MCB), an umbrella-group with which most significant Muslim organisations—including some radical ones—are affiliated. The government has allowed the MCB to influence, or at least comment upon, policies both domestic and foreign. Consequently, however, the MCB looks to some like a toady of the government.

The authorities in Paris have, if anything, gone even further than those in London in trying to co-opt and co-operate with the mainstream of their country's Muslim community. At the risk of compromising France's secular traditions, the government has groomed the French Council of the Muslim Faith (CFCM), elected via mosques rather than by ordinary Muslims, as a privileged interlocutor.

As both Britain and France have found, such tactics can involve hard trade-offs. As liberal French Muslims see things, their government, in its haste to find Muslim friends, has needlessly given some crypto-fundamentalists a bigger say in the nation's affairs than their numbers warrant. In Britain, too, the government has found that offering sops to the MCB ties them to policies (such as the bill to outlaw religious hatred that is going through Parliament) to which other citizens object.

But these days, European governments have few higher priorities than draining the waters in which incorrigible Muslim extremists can so easily swim. If wooing moderate European Muslims and, in the process, offending others is the necessary price, they will gladly pay it.

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London

After the bombs

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From The Economist print edition

Reuters

How four suicide attacks by British citizens have changed Britain

THE capital's Underground rail system has never been a comfortable place to travel. Crowded, unreliable and smelly, it is endured by Londoners rather than loved. Since three simultaneous bombs went off on three Underground trains at 8:50am last Thursday, followed just under an hour later by a bomb on a bus, the discomfort has taken on a macabre quality. Backpacks attract nervous looks. People try too hard not to catch the eyes of young men with brown skin. Much has been made of Londoners' Blitz spirit in the past week. But the comparison jars: people went down into the Tube to shelter during second-world-war air raids. Now the up escalator feels like the route to safety.

In one sense, London is almost back to its teeming normal. Passenger numbers on the Tube are only slightly down when the reduced service is taken into account. Companies had emergency plans to cope with disruptions to their businesses, an innovation since the attacks of September 11th 2001, but decided not to put them into operation. The stockmarket took just a day to recover, indicating that investors were hardly surprised that London had become the target of a successful terrorist attack—and that they thought it had come through the ordeal.

But this normality is more fragile than it looks. Identifying victims torn apart by the bombs is difficult and the process for officially confirming deaths slow. Every day has brought new newspaper photographs of the smiling faces of dead people. Pictures of the missing are still pinned to the fence outside King's Cross railway station. Grieving will not become private until they are taken down.

Britain's security services remain on their highest state of alert. The police have been worrying that the terrorists would carry out another attack, as the bombers who killed commuters on trains in Madrid in March last year were apparently planning to do. On Saturday night around 20,000 people were evacuated from the centre of Birmingham, after a suspect package was found on a bus. This turned out to be a false alarm. But a second successful attack would strike a nation that is in an anxious state of mind.

Hence one reaction to the news on Tuesday that police had identified four British men who had carried the bombs and blown themselves up: if they are dead, then they cannot kill again. But it also raised a disturbing thought: that Britain now has homegrown suicide-bombers who think the *Dar al-Harb*, the Abode of War, can be reached by boarding a Thameslink commuter train.

The terrorists gave no warning and the security services had not picked up any hint that an attack might take place (in fact the threat level had recently been downgraded from “severe general” to “substantial”). So the police started with no leads.

From the narrow perspective of the investigation, it was fortunate that the fourth bomb exploded on a bus rather than the Tube. Forensics experts could study the damage from a blast that had not been magnified by being confined to a tunnel.

This told them two things. First, that the bomb was no bigger than 10lb (4.5kg). That makes sense: the power of a charge grows with the volume of explosive, so to get a much larger explosion, say twice the size, the weight of explosive would have to be cubed. A really powerful device would be too heavy to carry without looking conspicuous. Second, the explosive was not a homemade cocktail of ammonium nitrate and fuel oil, but a high-grade explosive of the type used by the army or in industry. That, plus the synchronised timing, pointed towards a well-trained terror cell and inspired comparisons with the Madrid attacks, when a foreign al-Qaeda cell left timed devices on four trains carrying commuters.

But that working assumption changed on examination of CCTV film from cameras at King's Cross. This showed four young men with backpacks standing together on the station concourse before going their separate ways. It was nearly 8:30am, about 20 minutes before the Tube attacks. The bombers appeared to want recognition. At the epicentre of the blasts, police found personal documents, including credit cards and driving licences, that identified three young British Muslims from Pakistani families. One, a teenager called Hasib Mir Hussain, had been reported missing by his parents in Leeds on the day of the attacks. The fourth man, identified after a raid on a house in Aylesbury in the south of Britain, was a Jamaican-born Briton in his thirties—a strikingly different profile.

At 6:30 on Tuesday morning, police raided six addresses connected to the men in and around Leeds. They found more explosives, evacuated about 500 people from the surrounding area and made one arrest. Explosives were also found in a car that had been left in the station car park in Luton. Police now think that three men travelled down from Leeds and were joined at Luton by a fourth. The men—Mr Hussain; Shehzad Tanweer aged 22; Mohammed Sadique Khan aged 30; and a fourth as yet unnamed—then took the train from Luton to London.

A return to politics

The Madrid bombs caused political damage. The attacks took place just before an election in which the opposition argued that the Iraq war had imperilled its citizens. The government's readiness to accuse Basque terrorists contributed to a crushing electoral defeat.

Britain will be different. The main opposition party supported the Iraq war and has praised Tony Blair's statesmanship (see article). Charles Kennedy, leader of the Liberal Democrats, the one big party against the war, has raised questions about Iraq, but has been careful not to say the bombs prove his party was right about the merits of going to war. A few marginal voices have argued that the attack was payback for Iraq, but this is unlikely to wash. An ICM poll for the BBC's *Newsnight* showed no increase in support for withdrawing British troops.

What will change is the politics of security. Civil liberties are a minority interest in Britain: a poll conducted over the weekend by Populus for the *Times* showed that 86% of those surveyed supported giving the police new powers to arrest people they suspect of planning terrorist attacks.

But the minority includes many judges, journalists and MPs and, back in March, the government had to fight to get Parliament to approve legislation to bring in control orders—a set of extra-judicial measures to deprive suspects of some of their liberties. Further restrictions on civil liberties may now prove easier to secure when MPs return to Parliament in the autumn. Tony Blair is already talking about new laws aimed at those involved in the preparation of and incitement to terrorism. If this happens, it would be the fourth attempt to toughen anti-terror laws since 2000.

More legislation may make Britons feel safer, but it will not tell them what they most want to know: who supplied the bombers with equipment and trained them to use it? And how many more British citizens are queuing up to martyr themselves beneath the streets of London?

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Ethnic relations

One step back

Jul 14th 2005
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The attacks in London will test an already-embattled group

A CRUMB of good news can be gleaned from the aftermath of four bombings in London on July 7th, and the shocking discovery that British-born Muslims from Leeds were responsible. Most fingers pointed at Muslim extremists rather than Muslims as a whole; the police received useful tips from the attackers' co-religionists; and the only reports of rioting came from North Belfast, where Protestants and Catholics continued an ancient feud.

Amid occasional attacks on mosques and Muslims, the sackful of bad news is that the past week will cause lasting damage to communal relations in Britain. “We are shocked, dismayed, frightened and embarrassed,” says Ishtiaq Ahmed of the Bradford Council of Mosques.

To learn of the bombers' identity was all the more painful because Britain's 1.6m Muslims have of late striven to avoid acting in a way that might place them outside the mainstream. Whereas protests in the 1980s and 1990s against Salman Rushdie's book “The Satanic Verses” and the first Gulf war were led by Muslim clerics, opponents of the war in Iraq deliberately joined a broader coalition of peaceniks, even going so far as to march alongside Trotskyists.

Yet attitudes to Muslims are bad—particularly if they are Pakistani Muslims, the group from which the men who carried out last week's atrocities were drawn. A British Social Attitudes survey of the general population in 1998 showed that, fully three years before September 11th and riots involving Asian Muslims, prejudice against Asians was stronger than prejudice against blacks. In 2003 another survey found that 56% of people believed Muslims were more loyal to fellow believers abroad than to their own countrymen.

The spectre of terrorism is only one source of mistrust; another is the belief that Asian Muslims make little effort to fit into British society. Oddly, given a history of resentment at Afro-Caribbeans who are often accused of taking public housing and precious jobs, Asians are reviled for their apparent aloofness.

Cures for communal tensions are inadequate to the task of soothing relations between Muslims and others. Statistics usually used to prove discrimination tend to record colour, not creed; Muslims are a diverse and sometimes fractious group and their gripes are as much foreign as domestic. “It's a big challenge for the old-style race warrior,” admits Trevor Phillips, who chairs the Commission for Racial Equality.

A good start has, however, been made by Muslim clerics and spokesmen, who not only moved quickly to condemn the bombings but showed remarkable acumen and discipline in the following days. Many were pressed by journalists to explore parallels between the atrocities in London and the sufferings of Muslims in the Middle East. To their great credit, nearly all spotted the trap and refused.

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Britain and central Europe

New attractions

Jul 14th 2005
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Britain's popularity in central Europe is a political windfall

A DECADES-OLD wrong was put right last weekend. As part of Britain's celebrations to mark 60 years since the end of the second world war, 17 Polish standards flew in the victory parade that followed Queen Elizabeth and Prince Philip down the Mall. The old soldiers deserved their recognition: Polish pilots were vital in defeating German air attacks and London provided shelter for the Polish government-in-exile. In spite of that, Poles were banned from a similar parade in 1946, for fear of offending the Soviet Union.

Nor was the march the only salute to wartime co-operation between the two countries. An officially sponsored commission of British and Polish historians has had unique access to the archives of Britain's Secret Intelligence Service (better known as MI6). Its report on intelligence co-operation during the war was published the week before the parade.

"I was greatly moved," said Grzegorz Malkiewicz, editor of the London daily *Dziennik Polski*—particularly when Jack Straw, the foreign secretary, praised the Polish spies' "heroism", without which "the victory of peace and democracy on our continent would have been far less certain". That's balm to Poles' souls: they remember crossly how their trusted ally Britain betrayed them to Stalin at Yalta.

The book and the parade are part of a love-in between Britain and post-communist Europe with three aspects. The first is historical and symbolic. The unprecedented access to the spooks' archives, for example, helped allay lingering Polish suspicion of undiscovered British perfidy.

The second front is diplomatic. As Tony Blair's relations with Russia's president, Vladimir Putin, have chilled, Britain has become more receptive to Polish and Baltic worries about Russian mischief-making in the former Soviet empire. "The language was so strong, so wonderful, we could have drafted it ourselves," recalls one Baltic official, who requested, and promptly received, a resounding letter of support from Mr Blair's office.

That contrasts sharply with France and Germany, both seen by the post-communist countries as unsympathetic. The French president, Jacques Chirac, once told them that "they had missed a good opportunity to keep silent".

So Britain's current presidency of the European Union has attracted some warm words from the east. "Approval of Blair's vision of a new Europe has been reverberating in the capitals of the new member states, from Tallinn to Budapest," said *Delo*, a Slovenian daily, recently. The Czech *Hospodarske noviny* called Mr Blair "the only top politician from the large EU countries not afraid to take a principled stance".

The third front is practical. Britain is the only large EU country to have opened its labour market to workers from the new member states (and also, broadly speaking, to likely new members such as Romania). The results have been striking. Hundreds of thousands of central Europeans—at least double the official estimate of 176,000—have jobs in Britain, where their work ethic is highly welcome. Polish and Czech technicians at PCService, a thriving computer firm, "are happy to work—there's none of this 'it's late, I'm tired'," says the owner, Tom Breza.

By contrast, most European countries have seen workers from the new member states as a problem. "When Poland joined the EU, Germany introduced a transition period in its labour market. Lots of people who had been working there moved to Britain," says Ania Heasley, who runs an Anglo-Polish employment agency.

A triumph for British soft power, then? Not so fast, warns George Schöpflin, a British academic who is

now a Hungarian Euro-MP. He notes that the new member states strongly favour the EU constitution the British government regards as dead. And Britain has a dodgy reputation. “You can do short-term deals,” he says, “but at the end of the day Britain is not regarded as a reliable long-term patron—and all small countries need patrons.”

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Lord King

Wartnaby and all

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The man who rescued British Airways has died, aged 87

HE WAS known as the favourite businessman of Margaret (now Lady) Thatcher and he deserved the title. With Lord King of Wartnaby at the controls, British Airways (BA) emerged as the star performer of her programme of privatisation. When he became its chairman in 1981, the British flag carrier was losing £141m ($286m). By the time he retired 12 years later, its profit was £185m ($278m) and it was on the way to becoming one of the world's most profitable airlines.

Son of a Surrey postman, John King grew up a long way from the Leicestershire acres and the Belvoir Hunt he eventually presided over. A car salesman in his youth, he made his fortune in ball bearings. When the *dirigiste* Labour government of Harold Wilson forced his company into a merger in 1969, Mr King walked away with £3m ($8.4m). He then became chairman of Dennis, a commercial-vehicle company, and Babcock and Wilcox, an engineering company.

Knighted in 1979, he quickly came to the attention of Lady Thatcher as the sort of brusque, no-nonsense chap who could sort out the nationalised behemoths. He turned down British Steel, but accepted the top job at BA, with a brief to clean the company up for privatisation. He did so swiftly and methodically, sweeping away whole layers of managers and directors. His abrasive personality caused many mincing middle managers to call him a bully. Behind his gruff, rude manner was a gruff, rude man, albeit one who earned the affection of some colleagues. But a bully was perhaps precisely what BA needed to rid it of its nickname, “Bloody Awful”.

His masterstroke was to seek a chief executive who understood customer service, attention to detail and the importance of staff training. He found his perfect foil in Colin (now Lord) Marshall, a British executive who had learnt about customer care in the Avis car-hire business. Lord Marshall, under the direction of Lord King, skilfully transformed a nationalised public embarrassment into a privatised national emblem.

Lord King left the public stage in rancorous circumstances after a row with Sir Richard Branson over “dirty tricks” whereby BA staff indulged in some rather sharp practices to lure customers from the upstart Virgin Atlantic Airways. Lord King never really forgave Lady Thatcher's successor for letting Virgin into his redoubt at Heathrow. Like most businessmen, this champion of privatisation detested competition.

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Gambling

Turf war

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A new newspaper plans to tap into Britain's betting boom

ARE British punters in need of better tips? A group of would-be media executives think so, and this week they announced plans to launch the country's first new daily newspaper in two decades, hoping to take advantage of a fast-growing market of gamblers and gamers.

Jeremy Deedes, a former chief executive of the Telegraph group and chairman of the new venture, says that the *Sportsman* will profit from a "revolution in betting in the UK". He is trying to raise £12m from City investors, and plans to launch the paper in time for next summer's football World Cup to be held in Germany.

Growth in gambling is a worldwide phenomenon. Dresdner Kleinwort Wasserstein, an investment bank, predicts that global revenues will rise to $277 billion by 2008. Mr Deedes thinks that the rise of spread betting and internet gambling creates a market for a paper that caters to all gamblers, not just horse-racing fans.

The announcement suggests that Britain is doing particularly well from the boom. Revenues from British betting have been rising sharply (see chart). Internet poker, in particular, attracted headlines when PartyGaming, a poker website, floated in London last month with a market value of around £5 billion. The 2005 Gambling Act, which has just come into force, provides further legal footing for gambling.

These developments hide other changes in the way Britons are betting. Horse racing still accounts for the biggest slice of takings, but its market share is falling. Warwick Bartlett, a gambling consultant, says it now makes up less than half of betting-shop profits, down from more than 90% two decades ago. The biggest growth areas have been football, spurred by increased television coverage, financial spread betting and "novelty betting" on anything from politics to reality TV shows.

So the market looks good for the *Sportsman*. "The days of old men in flat caps gambling in grubby betting shops are over," says Steve Donaghue, a racing analyst. "If they had decided to launch three years ago they would have failed. Now they have a real chance."

What are the odds? A booming market is no guarantee of success. Two significant challenges remain: seeing off the competition and attracting a new type of reader.

The new paper must take on the *Racing Post*, Britain's "betting Bible". The market has in the past struggled to support more than one daily paper, seesawing between two loss-making operations and a single profitable monopoly. A circulation war in the mid-1990s saw the *Racing Post* merge with its rival, the *Sporting Life*. Since then it has done well, and it now sells almost 80,000 copies a day.

The *Sportsman* aims to sell half that at first, but it must still attract the hard-core racing fans, industry insiders and betting-shop owners who make up most of its rival's readership. Its backers expect the *Post* to react by cutting its cover price and offering discounted advertising rates.

All this competition will be good for gamblers and advertisers. But the paper must also appeal to the new consumers behind the betting boom. They are younger, more affluent and more diverse than traditional racing fans. Graham Sharpe, a spokesman for William Hill, one of the bigger bookmakers, says that might be tricky. "People assume gamblers in one area are interested in other areas. But our experience is that punters tend to specialise," he says. Whether this motley crew of football fans, city spread betters and online poker addicts can be persuaded to buy the same paper every day will determine if the *Sportsman's* horse comes in.

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The Church of England

Holy matrimony

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An unforeseen obstacle for women priests

FOR the first time in its history, the Church of England looks set to ordain more women than men into the priesthood this year. Women only gained the right to be priests in 1992, but they have been quick to take it up: nearly a quarter of Anglican priests are now female.

On Monday church leaders took another big step, when they voted to lift the barriers against women becoming bishops. This has got the traditionalists reaching for their crucifixes. Some are even threatening to go to Rome.

Yet the ministry is not about to be taken over by women. Promotion to the upper ranks of the church is blocked by a stained-glass ceiling. The appointment process is run by men who made their way before women had joined the clergy. Women number only five of the church's 115 archdeacons and two of its 44 deans. The first female bishop is at least a decade away.

But female priests are foiled by friend, as well as foe. The influx of women into training for ordination has created the “clergy couple”, a married pair consisting of two priests. Many of the first female recruits were already married to a priest and some of those who enter the seminary single leave it married. With many church training colleges now accepting as many women as men, it is hardly surprising that love blossoms—and that the lovers do the Christian thing and marry. Christina Rees, who chairs Women and the Church, a campaigning group, estimates that up to a quarter of married women priests are part of such a couple.

Church rules state that a vicar must live in his or her parish, meaning that a cohabiting couple has to decide which will take up the job in their area. There is usually only one vicar in each parish, and the position can seldom be shared.

The unemployed partner can take up an assistant post in the church, such as a curacy. But the work—performing baptisms and funerals, for example—is limited and often unpaid. Alternatively, the two vicars can live in different parishes.

“It is a growing phenomenon, and it can be a problem,” says Rev Dr Richard Higginson, director of studies at Ridley Hall College, in Cambridge. “But most of them... accept that they will be operating in different parishes.”

That is what Helen Cunliffe, archdeacon of St Albans, and her husband Christopher, who works as chaplain to the Bishop of Bradwell, some 50 miles away, have decided to do. Being apart has its drawbacks, she says, but it's desirable for priests to live where they work.

The church may not be able to rely on all couples being so dedicated. Like the Vicar of Bray, who repeatedly adapted to changing religious fashion, modern church leaders need to accommodate marriage between priests. Perhaps it is time to tweak the ancient parish rules.

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Pension safety net

A premium price

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The bill for insuring company pensions is rising

THE Pension Protection Fund (PPF) is only a few months old—it opened for business on April 6th—but already it is shaping up to be an expensive baby. On July 12th it unveiled proposals for next year's levy, which suggest that it will cost companies a lot more than the government initially indicated.

The new safety net is faced with some costly casualties from underfunded schemes of firms that have gone bust. These include MG Rover and Turner & Newall, whose members are almost certain to get help from the PPF. It offers quite generous, though not complete, cover for private schemes providing defined-benefit (DB) pensions, which are based on years of service and final salary.

The original plan was that the PPF would cost private employers with DB plans surprisingly little. The first-year levy in 2005-06 was set to raise £150m. More important, when the government introduced the legislation to establish the PPF, it estimated that the regular cost would be only £300m a year.

That figure always looked like wishful thinking. Now the PPF itself has said that it expects the levy will have to be “somewhat higher” because of rising longevity and lower interest rates. “A substantial increase will be necessary,” says Tim Keogh, a partner at Mercer, an actuarial firm. He thinks that a private insurance company would have to charge an annual premium of at least £1 billion to cover the risk the PPF will bear.

That may sound a lot, but the PPF has revealed this week just how much it has taken on. The total liabilities that it is covering amount to £1 trillion. The total deficit in the schemes comes to £134 billion.

Potential claims on the PPF arise from a combination of underfunding and insolvency risk. It now plans to take account of both these factors by making 80% of the total levy risk-based. This will start next year for all schemes—much sooner than expected. The remaining 20% of the levy will be charged to individual schemes according to their share of the total liabilities covered by the PPF.

The early introduction of risk-based premiums means a big shift in the distribution of the levy. In the current year, the levy has been apportioned at a flat rate, according to the scheme's membership. This means that financially strong companies with better-funded schemes are cross-subsidising weak firms with poorly funded pension plans.

Unsurprisingly, the strong have complained—and the PPF has listened. Under its proposals, a weak company with a poorly funded plan could pay 50 times as much in risk-based levy as a strong company with a much-better-funded plan. The new charging structure has been welcomed by the Confederation of British Industry (CBI), whose members had been cross about the scale of cross-subsidy in the original levy.

The new approach is clearly fairer. It also creates an incentive for companies to improve the funding of their pension schemes. But the medicine may prove too powerful. It will do no one any good if the rapid introduction of risk-based charging pushes some fragile companies over the brink. Acknowledging this, the PPF will set a cap on the risk-based levy as a share of individual schemes' liabilities.

The big worry is that the PPF is being asked to do too much with too little. The government chose to protect benefits at quite a high level while hoping this could be achieved with quite modest premiums. Now it is clear that the overall levy will have to be higher. That is likely to push more companies into steps to cut their DB obligations, if necessary by closing their schemes to existing members, as well as new ones. The pension safety net may protect some people, but it could hurt more.

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Forests

Root thy native oak

Jul 14th 2005
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Globalisation and greenery could revive Britain's native woodlands

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THE oak tree is a potent enough symbol of England to have earned a mention in “Rule Britannia”. But after a stroll in today's countryside you would probably tell the poet to swap it for the Sitka spruce. The spruce and other fast-growing conifers make up a third of England's woodlands, planted with government money since 1919 to ensure a timber supply during wartime. The pinewoods, many of which are on the site of older forests, have never been popular. The walking public dislikes their gloomy atmosphere, and tree-huggers would rather see native species supporting native wildlife.

Both walkers and huggers had reason to cheer last month when the Forestry Commission, the state-backed outfit that manages Britain's woodlands, announced plans to replace conifers in England's surviving ancient forests with traditional species, which will be left to grow and develop naturally. Millions of foreign trees will be chopped down over the next 20 years, and big subsidies (up to £1,760 per hectare—£715 per acre) are available for private landowners who replant their woods with native trees.

The new policy represents a shift in forestry from industrial and commercial production to other, greener uses. “The world has changed since the 1950s,” says an environment department spokesman, when many of the current crop of pine trees were planted. The coal industry, which needed timber to shore up its mineshafts, is tiny now. The fall of the Soviet Union ended the threat of another big war, which means less need for homegrown supplies. Some of the former Soviet states have joined the European Union, and their cheap labour and plentiful timber have contributed to a fall in prices of about 75% since their most recent peak a decade ago. That's unlikely to change: the United Nations' Food and Agriculture Organisation reckons European timber production will continue to shift eastwards.

Cheap imports will keep industry happy while allowing the government to focus on greenery. Ministers are now willing to subsidise tree-planting for all kinds of reasons, such as fighting global warming, preventing floods and even encouraging lazy Britons to get fit by going on long, pleasant walks. Other benefits are more nebulous: native forests make the countryside prettier, says the Forestry Commission, and support a greater variety of wildlife. Even Derek Spicer, the chairman of the British Conifer Society, likes the new policy. “There's certainly a case for growing conifers as forestry,” he says. “But not that horrible Sitka spruce monoculture that puts everybody's backs up.”

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Bagehot

The unexpected apotheosis of Tony Blair

Jul 14th 2005
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For the moment at least, Tony Blair has seemed to rise above normal politics

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IN THIS week of all weeks, the celebrated observation of Harold Macmillan, a former British prime minister, that the thing he feared most was events should be engraved on the consciousness of anyone who indulges in the perilous activity of political forecasting.

Even before the suicide bombers struck, who on May 6th would have predicted the change in Tony Blair's standing? The fashionable view was that Mr Blair was washed up after a deeply unsatisfactory victory, secured with the votes of just one in five of the electorate. But not even Mr Blair could have hoped for such a transformation in so short a time. Of course, he had his stroke of luck when the French and the Dutch saved him from holding a referendum on the European constitution next year that would almost certainly have finished him. However, since then Mr Blair has been playing at the very top of his game.

His decision to reinvent himself as the man to save Europe from itself was a calculated risk that now looks like a masterstroke, not only drawing the poison from the European debate at home, but winning praise from such unexpected quarters as the editorial pages of *Le Monde* and the governor of the European Central Bank. By linking reform of the common agricultural policy to the campaign to Make Poverty History, he has cloaked a tough negotiation about money in moral righteousness.

It was another gamble to fly to Singapore on the eve of the G8 summit in a last ditch attempt to haul London's Olympic bid over the line. For all the efforts of Lord Coe's team, few (and certainly not the aggrieved mayor of Paris) doubt it was the concerted application of prime ministerial charisma that extracted the crucial votes on the International Olympic Committee.

The tactic of “aiming high” at Gleneagles was also fraught with danger. Mr Blair took the chance that he could exploit the weight of expectation he had helped build up to press his fellow heads of government into going further than they otherwise would have gone. Inevitably, when Mr Blair failed to win everything he had hoped for, the aid charities and green pressure groups cried foul. But one only has to ask which of the other G8 leaders would have dared to make the effort, let alone achieved as much that was tangible and worthwhile, to acknowledge Mr Blair's currently unrivalled international stature.

In many ways, finding the right response to the terrorist attack was the least difficult thing the prime minister has had to do in the past few tumultuous weeks. Although Mr Blair's shock on hearing the news was real, it was a moment he had long prepared for. He was not quite pitch perfect—the gulp of emotion was unnecessary. Neither was he on July 11th in his statement to the House of Commons about the bombings: he referred to the “heroism” of Londoners, when grim resignation was nearer the truth. But he was close. In striking the balance between defiant rejection of the terrorists' nihilistic creed, refusal to be panicked into irrational measures and a powerful defence of the British Muslim community from which the bombers came, Mr Blair combined steadiness with empathy.

Given that the emergency services have conducted themselves with distinction and that the police investigation has so swiftly identified the bombers, perhaps it is not surprising that Mr Blair has won plaudits. Even Michael Howard, the Tory leader, paid tribute to the prime minister, wisely deciding against demanding an inquiry into the possibility of security failings. So far, much to Downing Street's relief, there has been a commendable (if surprising) reluctance to make a causal connection between Mr Blair's Iraq policy and the bombings. Only George Galloway, a maverick MP, and one or two shrill newspaper columnists have linked the war to the attacks.

Obviously, this is one of those strange times when normal politics are suspended and everyone is desperate to sound constructive and consensual. Equally obviously, it won't last, at least not like this. After all, the lionisation of Mr Blair after the attack of September 11th was strictly temporary.

Beware flatterers

There is, however, another possibility and one that is being actively discussed on both the Labour and Tory benches. Politics will indeed soon resume normal service, but Mr Blair, for the remainder of his premiership, will increasingly be seen as a figure above and beyond party.

The praise lavished on Mr Blair from Conservative MPs and right-wing newspapers for his new European policy, his role in securing the Olympics and his G8 endeavours has been, if anything, more gushing than from his own side. This is mostly genuine—as one Tory leadership candidate put it: “If Blair does something that everyone else thinks is good, it doesn't help us if we try to deny it.” But there is also an element of calculation.

For the Tories, the most salient fact about Mr Blair is that he is not going to fight the next election. Not only is it now safe (and, in a way, comforting) to recognise the prime minister's political genius, it also serves their purpose to make favourable contrast between his stratospheric gifts and those of his earth-bound probable successor, Gordon Brown. Attempting to detach Mr Blair from his party by flattery, some Tories reckon, may be the best way to beat Labour when he has gone. Mr Brown's ever-fretting supporters fear Mr Blair may fall into the Tory trap.

It's possible, but unlikely. Despite Mr Blair's lack of tribalism, he has never wavered in wanting to dish the Tories. Margaret Thatcher might have taken perverse satisfaction from the disasters that overtook her party after she had gone. But Mr Blair's domestic policy achievements are slighter and more fragile than hers. He knows that the legacy he sets such store by requires Labour to win a fourth term under Mr Brown. It's not Mr Blair that should worry the Brownites, but events.

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Italy and terrorism

The next target?

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From The Economist print edition

AFP

Terrorism is "knocking at Italy's door", says the interior minister. Most Italians need no persuading

THERE is a widespread conviction among Italians that, after London's bombs, they are next. It could be felt in the Rome metro this week, where seats were free in carriages that are normally packed. It could be read in a poll for the *Corriere della Sera* daily, which found that 82% of Italians saw a serious risk of terrorist attacks. Sensing the mood, the government presented a raft of security measures, including new border checks—without going as far as France, which has suspended the Schengen accord on free movement.

Danes also fear an attack—75% of them, says one poll. But while Denmark has 530 troops in Iraq, Italy has 3,000, reflecting the support of Silvio Berlusconi, Italy's prime minister, for American policy. Since the departure of Spain's José María Aznar, that policy has been identified with the "three Bs": Bush, Blair and Berlusconi. Not least among the reasons why Muslims dislike Mr Berlusconi is that, after September 11th, he lauded the "superiority" of western civilisation. A statement claiming the London bombs specified Rome as a target, calling it the seat of a "collaborating government" and "capital of the infidels".

The government's response has been energetic, if less so than some would have liked. After a meeting lasting almost 24 hours, involving civil servants, parliamentary leaders and intelligence chiefs, Giuseppe Pisanu, the interior minister, set off for talks with the Libyans. Many migrants entering Italy illegally from the Middle East arrive via Libya, and Mr Pisanu was seeking help in blocking the movement of suspected extremists. On his return, Mr Pisanu unveiled a raft of new measures. Some can be implemented immediately; others need parliamentary approval. Police will get the right to hold terrorist suspects for 24 hours without turning them over to a magistrate, twice as long as now. The intelligence services will be given broader access to the records of telephone companies and internet service providers. Investigators will be able to offer residence permits to informers. And the authorities will get the power to sequestrate assets of firms suspected of financing terror.

Suspects already under investigation now risk expulsion. More police are to be deployed on anti-terrorist duties. Checks on mosques and Islamic centres are to be stepped up, as are patrols on public transport and surveillance of the Austrian and Slovenian frontiers. This week the police carried out some 200 raids, ratcheting up the pressure on terrorist suspects. And a judge convicted two Islamic militants on

terrorism charges dating from 2002.

Mr Pisanu seems sure to get the bipartisan support he needs for his measures. The opposition feared a draconian new anti-terrorist law, but Mr Pisanu reassured them: “We cannot curb the freedom of the public to combat the enemies of freedom.” Centre-left lawmakers applauded this statement. Their unofficial leader, Romano Prodi, praised a set of “serious, targeted” measures. Mr Pisanu may have more trouble with his coalition partners. The formerly neo-fascist National Alliance would like police to be able to hold suspects for 72 hours. The Northern League called for a motion to declare Italy at war.

What many would like to have seen was a move to improve co-ordination of anti-terrorism efforts. Italy has three police forces, each with a unit responsible for anti-terrorist investigations. Individual inquiries are led by prosecutors who do not automatically share findings with each other or with the intelligence services.

The Northern League is pressing for a special ministry similar to America's Department of Homeland Security. Others believe the portfolio is best left with the Interior Ministry, but want a chief anti-terrorist prosecutor. A former president, Francesco Cossiga, plans to propose a bill to create a figure similar to Italy's chief anti-Mafia prosecutor. He or she could count on emergency legislation like Britain's.

For many Italians, the surest way to stave off a terrorist attack would be to get out of Iraq. Others fret that such a move could send a disastrous message to Muslim extremists, similar to that relayed by Spain's 2004 election, when voters dumped the pro-American People's Party government days after bombers struck Madrid. Speaking soon after the London bombings, Mr Berlusconi confirmed a plan to withdraw 300 troops in September. Poland's foreign minister, Adam Rotfeld, called this a mistake, though he later withdrew his criticism after learning that partial withdrawal had been announced earlier. Yet he was not alone in seeing the timing as unfortunate. Mr Berlusconi's first pledge, in March, was a “plan if an agreement is reached between the allies and the Iraqi government”. Many Italians assumed it had been shelved when the foreign minister, Gianfranco Fini, said two months later that Italy's troops could stay until 2006. Even *Tempo*, a daily which stands four-square behind the government, smelt a whiff of appeasement and accused the prime minister of “slyness”.

At the least, Mr Berlusconi must now be uncomfortable about Italy's involvement in the American-led coalition. An election is due by next spring, and the opposition is calling for a troop withdrawal. Italy risks drifting into a situation dismayingly like the one before terrorists struck at Spain, killing almost 200 people. Which may explain a quirk of the poll in *Corriere della Sera*. Only 16% thought that an attack was imminent; but 66% said there could be one “within several months”.

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French taxes

Wealth of the nation

Jul 14th 2005 | PARIS
From The Economist print edition

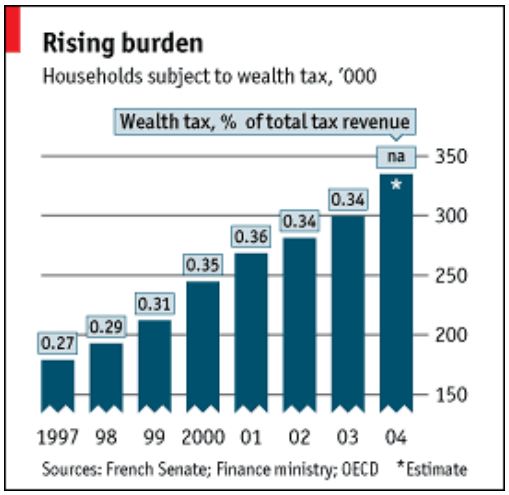
Why plans to cut France's wealth tax are unlikely to succeed

IT HAS become a well-worn ritual. A politician suggests reforming France's wealth tax; the government dismisses the idea out of hand. So it was to some surprise that the proposal was made this week not by a maverick backbencher but by the finance minister, Thierry Breton.

In an interview with *Le Figaro*, Mr Breton declared that the tax had become "no longer a wealth tax, but simply yet another tax on the savings and housing of our fellow citizens, who are by no means all wealthy". Moreover, it was a "costly" tax, which "can be economically dangerous". The prime minister, Dominique de Villepin, duly denied that reform was on the table; but he confirmed that a review of fiscal policy—including the wealth tax—would be conducted by the end of the year.

The *impôt sur les grandes fortunes* (tax on great wealth) was introduced by François Mitterrand in 1981 and—after a brief and controversial abolition—reintroduced in 1988 under the label *impôt de solidarité sur la fortune* (ISF). It kicks in when combined assets—property, securities, cash, furniture—reach €720,000 ($850,000), and it applies yearly on assets held both outside and inside France. The tax rate rises from 0.55% to 1.8% for assets over €15m. France is not the only European country with a wealth tax—Spain, Finland, Luxembourg and Sweden have them too—but it is alone in having raised it. Denmark, Germany and the Netherlands have all scrapped wealth taxes in recent years.

Were the ISF confined to genuinely large fortunes, there might be little case for change. But thanks to the property boom, over 335,000 households now pay it, a rise of 87% in eight years (see chart). Most new payers fall into the least-rich brackets, and they include property-owners in newly fashionable places where house prices have soared—not to mention, presumably, left-wing Paris-based politicians who would be mortified if it emerged that they paid the ISF. Newspapers often report the plight of fishermen, farmers and pensioners living on the Ile de Ré, a vogueish resort for Parisians, caught by the ISF.



The economic case for change is strong. A Senate report showed that the tax prompts a steady flow of exiles to lower-tax Belgium and Switzerland. It deplored a "loss of dynamism for the French economy" and said that, in the long run, "the situation is not sustainable...if we want to preserve the attractiveness of the country and hence French jobs."

All the same, in a land where Trotskyites are credible political voices and the revolutionary myth of equality runs deep, there is fierce resistance to easing a squeeze on the rich. Wealth, particularly of the speculative financial sort, occupies an ambiguous position in France (paintings and works of art are, naturally, exempt). After Mr Breton's call, the opposition Socialists instantly dismissed the whole notion of reform, calling on the government to choose between “mending the social divide and protecting the rich”.

A recent effort by backbenchers of the ruling UMP party to reduce the burden of the ISF failed to muster support in parliament. As for President Jacques Chirac, he was the prime minister who controversially scrapped the wealth tax in 1986—but went on to lose the presidential election two years later.

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Luxembourg and the European Union

A hollow victory

Jul 14th 2005
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The grand duchy says yes, but the European Union constitution is still dead

THERE were only 25,000 votes in it. But at least Jean-Claude Juncker, prime minister of Luxembourg, won his referendum on July 10th to approve the draft European Union constitution, by 57% to 43%. Mr Juncker, who served as EU president until the end of June, promptly hailed the vote as “every bit as important as those in France and the Netherlands.” Sadly for him, this is as incorrect as his earlier claims that the French and Dutch voters had not, in fact, rejected the constitution.

Luxembourg, a founder member of the EU with a long integrationist belief, is both the richest member of the club and also, thanks to its hosting of various EU institutions, the biggest net recipient per head of EU money. For it to say no to any EU treaty seems unthinkable. Yet even so it may have taken the threat of resignation by Mr Juncker, whose popularity was boosted by his run-in with Britain over the EU budget at last month's summit, to ward off a no vote.

The impact on the rest of Europe, and on the eventual fate of the constitution, will surely be small. Mr Juncker had sought to play down the French and Dutch rejections by arguing that “if we were to add up all of those who wanted ‘more Europe’ as a yes, then I think that we would have had a yes vote.” The president of the European Commission, José Manuel Barroso, made a similarly valiant attempt to use the Luxembourg vote to create momentum for the constitution by noting that a majority of EU members has now approved it.

Yet only two countries have done so through referendums (Spain is the other). And other countries that had planned referendums, such as Denmark, Ireland, Poland and the Czech Republic, as well as Britain, have put them off indefinitely. Belgium and Estonia may yet ratify the constitution by a parliamentary vote, but few others will follow.

What is true is that a no vote in Luxembourg would have buried the constitution for ever. The yes may just keep alive the faintest hope that the EU might somehow reconsider the constitution in a few years' time. Yet even the Belgian prime minister, Guy Verhofstadt, has spoken of its being cryogenically frozen. It will take more than a few plucky Luxembourgeois to defrost it.

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German foreign policy

Rebalancing, not realigning

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How German foreign policy might change under a new government

IT COULD be Gerhard Schröder's last throw. Were the UN General Assembly next week to approve an expansion of the Security Council, making a permanent seat for Germany likely, this foreign-policy triumph would boost the chancellor's re-election campaign. But if the resolution fails, his rival, Angela Merkel, will be eager to exploit the occasion. Foreign policy is not one of her strong suits: the programme of her Christian Democrats (CDU), published this week, gives it a scant four pages out of 40.

In foreign-policy terms, Germany might be conceived of as an atom at the centre of a molecule that is Europe. To keep this structure stable, says Ulrike Guérot, of the German Marshall Fund, Germany must balance relations with France, its key ally in the European Union; with Britain, the other big EU country; with smaller EU members, with central Europe and with Russia, the giant to the east; and, overarching these, with America.

This balance was easier to strike during the cold war. Relations with the east were about deterrence; the only big question was whether relations with France or America mattered most. Officially, the old West Germany mostly refused to answer: it needed France for European integration. But in practice, America came first as the ultimate guarantor of German security. As for the rest, the Germans were willing to please by footing most European bills.

Even after unification, Germany's approach to foreign relations remained much the same, not least because Helmut Kohl stood for continuity. It took a new chancellor in 1998 and the war in Iraq in 2003 to shake things up. But far from following a pacifist path, as many expected, German foreign policy has become more Gaullist, combining new self-confidence with a fiercer defence of the national interest.

This is partly because foreign policy has fallen increasingly to the chancellor, to the detriment of his (Green) foreign minister, Joschka Fischer. The decision to send German troops into combat for the first time since 1945 as part of NATO's 1999 war in Kosovo may have been at least equally Mr Fischer's, who had to fight to carry his party. But what followed was mainly of Mr Schröder's making: strong opposition to the war in Iraq, close friendship with the French and Russian presidents, firm support for lifting the arms embargo on China—and the pursuit of a permanent Security Council seat.

Where does this leave the molecule model? Germany is no longer at the centre, but closer to France and to Russia, and farther from America. Ties to central Europe, Britain and other EU countries are looser. In general, Germany has become more of a free agent, moving independently and trying to be a heavyweight in its own right. The old structure of foreign policy thus seems increasingly outdated.

Most Germans approve of this shift, which explains why Mr Schröder is most popular for his foreign policy. Some 45% of Germans believe their country's influence has grown in the past ten years and 51% think they are liked, says a recent Allensbach poll. As for which country Germans want to co-operate with most, France (70%) is now ahead of America (63%).

The weakness of Mr Schröder's foreign policy has been less its substance than its style, argues Christoph Bertram, the outgoing director of the German Institute for International and Security Affairs. Germany, he says, needs to be more conscious of its pivotal role in holding together the EU, and to show more respect for the sensitivities of smaller members. Others say that Mr Schröder has too short-term a view of German interests in Russia and China, putting business before human rights. Still others criticise Germany and France, both weak economically, for trying to perpetuate their dominance of the EU.

The opposition promises to do better. Ms Merkel is not given to rash decisions. She is also no

bleeding-heart European in the mould of Mr Kohl, who saw European integration as a matter of war or peace. Ms Merkel assesses it more in terms of German interests. Yet a Merkel government will rebalance rather than realign.

Ms Merkel and Wolfgang Gerhardt of the Free Democrats (FDP), her most likely foreign minister, are more Atlanticist than Mr Schröder. But they know the old close transatlantic relationship is gone, not least because most Germans are now so critical of America. Both also understand the central importance of Franco-German relations. A Chancellor Merkel may visit America first—but only after she has visited Paris well ahead of the election (indeed, a trip is planned next week). Bigger change is likely elsewhere. Ties with Britain may get stronger, because Ms Merkel likes Tony Blair and shares his views on economic reform. And, although (or perhaps because) Ms Merkel is fluent in Russian, she will give Mr Putin a harder time than Mr Schröder has. Smaller EU members will also get more attention, even if not as much as they did under Mr Kohl.

There are potential bones of contention. One is EU enlargement, in particular to include Turkey. The FDP does not exclude full membership, but the CDU doesn't want to go beyond a privileged Turkish partnership with the EU (a position that could also upset the Americans). Other controversies could arise over sending German soldiers abroad, about which the FDP tends to be sceptical. Yet the biggest fight will probably be over divvying up foreign-policy roles. Mr Gerhardt will not want Ms Merkel to dominate foreign policy as Mr Schröder has.

If the election produces a grand coalition, the next foreign minister may be a Social Democrat—though it is hard to see any of the party's leaders in the job. What many in Berlin dread most is that Edmund Stoiber, boss of the CDU's Bavarian sister party, the Christian Social Union (CSU), insists on being foreign minister. That would give him a top post, but let him stand above the political fray: it is easier to be popular as foreign minister than as, say, finance minister. Yet Mr Stoiber would hate the travelling, says one insider: “He doesn't even like to leave Bavaria.”

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Russian politics

Dachagate

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The latest target of Kremlin paranoia

FRONT companies; a rigged auction; a swanky government dacha; a kickback to a friendly oligarch: the allegations that emerged last week involving a former prime minister had all the usual Russian ingredients. In most places, the potential exposure of crooked, powerful men in a woefully corrupt country might be seen as good news. But in Russia, where most people assume that all powerful men are crooked, the question is not “How did he get away with it?” but “Why him?”

Mikhail Kasyanov was Russia's prime minister for four years, until he was sacked by President Vladimir Putin in February 2004. He is one of those plausible, English-speaking Russian politicians who is better liked abroad than at home. In Russia he is remembered partly as a friend of the “oligarchs”, partly also for his time as a foreign-debt negotiator and finance minister under Boris Yeltsin, Mr Putin's predecessor. In that period he acquired the derogatory sobriquet “Misha 2%”.

In February, a year after he was fired, Mr Kasyanov made some sharp criticisms of the government's trajectory, and was immediately touted as a possible opponent to whoever emerges as the Kremlin's candidate for the presidential election in 2008. Yet his wheeler-dealer reputation, plus his long service to Mr Putin, made the idea that he might emerge as a Russian Yushchenko, a figurehead for a new “orange revolution”, seem implausible.

It will be even more so now. Last week Alexander Khinstein, a journalist and pro-Kremlin member of parliament, instigated an inquiry by prosecutors into the allegedly fraudulent sale of two elite Moscow compounds, one of them to Mr Kasyanov, shortly before he was sacked. The official responsible for the deal has since been charged. Mr Kasyanov, whose relationship to the companies involved has yet to be proved, has not been, and he denies any wrongdoing.

He is said to be abroad: this may be a hint that he should stay there. Given his intimate knowledge of the machinations of Mr Putin's first term, he may never be prosecuted. These sorts of allegations can soon fade, or be shifted to some other target. But whatever the outcome in this case, it is seen in Moscow as exemplifying two worrying trends.

The first is the use of prosecutors and the judiciary for the pursuit of politics by other means. The nine-year sentence given to Mikhail Khodorkovsky, the former boss of Yukos, an oil company, is only the best-known example. Awkward witnesses in that case, and other inconvenient individuals, have also been investigated.

Assuming that the affair is not unrelated to Mr Kasyanov's presidential aspirations, it also confirms the other trend: Kremlin paranoia over potential challengers, however unthreatening. Mr Kasyanov's popularity ratings are nugatory. Recent campaigning by Gary Kasparov, another marginal politician and former chess champion, has met a series of bizarre obstacles. The National Bolshevik Party, an oddball outfit that is now banned, has been harassed; 39 young activists are on trial for the brief invasion of a government building. An already emasculated media has been tamed further by the takeover of *Izvestia*, a newspaper, by Gazprom, a state-controlled energy giant.

Such Soviet-style intolerance of risk may help to shore up Mr Putin's regime in the short term. But in the end, it risks insulting the country's intelligence.

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Culture in St Petersburg

White nights and knights

Jul 14th 2005 | ST PETERSBURG
From The Economist print edition

What explains the success of St Petersburg's two great cultural institutions?

BESIDES being one of the world's best-known conductors, Valery Gergiev is a savvy politician. After conducting the Berlioz requiem in the courtyard of the Hermitage's Winter Palace (wearing a baseball cap), Mr Gergiev is as unfazed by questions about the ascendancy of his opera and ballet company, the Mariinsky, over the Bolshoi, its Moscow rival, as by the fireworks that disrupted the performance, almost invisible though they were against the white night.

A big part of the explanation for the Mariinsky's success is Mr Gergiev. The maestro has unlikely origins: an ethnic Ossetian, he grew up in the Caucasus (he gave a series of tribute concerts after the Beslan atrocity last year). He has become Russia's biggest post-Soviet artistic star, his services sought by opera companies and orchestras around the globe.

The Mariinsky and the Hermitage also have each other: “the great museum and the great theatre”, as Mr Gergiev puts it. In him and Mikhail Piotrovsky, the Hermitage's director, both have bosses who have hustled through the cultural challenges of post-Soviet Russia. Both men have cultivated foreign partners, and have quickly learnt the dark arts of fund-raising. Mr Gergiev says he picked them up by himself; Mr Piotrovsky says the Guggenheim and New York's Metropolitan Museum lent a hand. The Mariinsky, says Mr Gergiev cautiously, accepts only clean money. Mr Piotrovsky is more phlegmatic: he is wary of the “crooks [who] come to us from all over the world,” but ultimately “there is no clean money.” Mikhail Khodorkovsky was a Hermitage donor; Vladimir Potanin, another oligarch, is chairman of the board of trustees.

Despite perpetual planning obstacles, the Hermitage and the Mariinsky (known abroad by its Soviet name, the Kirov) are both expanding. The Hermitage, which now has offshoots in London, Amsterdam and Las Vegas, and plans another in Tatarstan, is restoring the east wing of the General Staff building, across the square from the Winter Palace. The Mariinsky is building a new 2,000-seat theatre. Moscow's Bolshoi closed its main auditorium earlier this month for a much-delayed revamp. Against Mr Gergiev's innovations, Bolshoi productions can seem stale, and its audiences sometimes more interested in their mobile phones than in music.

The two institutions' other edge is St Petersburg itself. Mr Piotrovksy gives thanks to Lenin for making Moscow Russia's capital, which helps to explain why much of it is so ugly. Many of Moscow's old buildings have been torn down; others are draped with street-size advertisements. It may also help that Petersburgers run the country. German Gref and Alexei Kudrin, the economy and finance ministers respectively, are old friends, says Mr Gergiev. Valentina Matvienko, the city's governor, is rumoured to be the likely successor to Mikhail Fradkov, Russia's hapless prime minister. And St Petersburg's other gift to the world, Vladimir Putin? “A man of culture,” says Mr Piotrovsky diplomatically.

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Charlemagne

The end of enlargement?

Jul 14th 2005
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The risk that the death of the constitution may also kill off further expansion of the club

BELIEVE it or not, one of the most exciting and positive stories in the modern world is taking place in Europe. The headlines in western Europe may be full of gloom: economic stagnation, political confusion and Islamic terrorism. But in the eight central European countries that joined the European Union in May 2004, this is a time of optimism. Belying Europe's image of economic sloth, their economies grew by an average of over 5% last year. More important than the figures is the mood. Central Europeans are still, on average, poorer than western Europeans—but they are also a lot more hopeful about their future. Where the French, Germans and Italians worry about pensions, jobs and the spectre of economic reform, central Europeans have gone through a wrenching change from communism to capitalism, and emerged optimistic that the next generation will be richer and freer than they are.

Given that this enlargement has been such a success story, you might expect the EU to be eagerly pressing ahead with the next wave. You would be wrong. On the contrary, enthusiasm for further expansion is fast draining away. Bulgaria and Romania, which have signed accession treaties with the EU, are likely to join as planned, but this week the enlargement commissioner, Olli Rehn, suggested that the date may be postponed from 2007 to 2008 because they have been slow to implement reform. Meanwhile, the next wave of countries in the queue—the five west Balkan countries (Bosnia, Croatia, Albania, Macedonia and Serbia), plus Turkey—see their chances of EU membership receding. And though the Ukrainians may feel that their “orange revolution” deserves to be rewarded, the reality is that the EU is doing all it can to discourage talk of Ukraine's membership.

The newly crabby and negative attitude in western Europe is intimately connected to the defeat of the EU constitution in the referendums in France and the Netherlands. There were many motives behind the no votes. But even mainstream politicians have concluded that a big one was discomfort over EU enlargement. The French no campaign harped on the fear that living standards would be undermined by competition from the east (famously symbolised by Polish plumbers). Dutch rejectionists capitalised on fear of further Muslim immigration into the Netherlands if Turkey were to join the EU. Politicians in both countries are now extremely wary of taking further liberties with volatile voters on European issues.

Some political leaders are losing their enthusiasm for enlargement in any case. Angela Merkel, the favourite to become the next German chancellor after elections in September, wants Turkey to settle for a “privileged partnership” with the EU, rather than full membership, as does Nicolas Sarkozy, who is a front-runner to become France's next president in 2007. Charles Grant of the Centre for European Reform, a London-based think-tank, argues that countries such as France tolerated past enlargement of the EU in return for a commitment to deeper political integration; but “now that deepening has stopped, the leadership of several EU countries is likely to veto further enlargement.” Indeed, France has already set a deep booby-trap by amending its constitution to ensure that any further enlargement after Romania and Bulgaria must be approved by French voters in a referendum. Austria has also promised its people a vote on Turkish membership. Given the popular mood in both countries, it is hard to see such votes resulting in a thumbs-up. Europe's new-found taste for referendums, which has already killed the constitution, may now do the same for enlargement.

Naturally, officials in Brussels, as well as in the applicant countries, are extremely reluctant to accept this. As one senior EU official notes, negotiations with Turkey and the western Balkan countries may take a decade or more, adding that “by 2016, we will be living in a different world anyway: who knows what the political situation in France, or the rest of Europe, will be.”

There is good reason for European diplomats to be reluctant to give up on enlargement. Most of those who deal with the Balkans are convinced that the only way to keep the peace, preserve democracy and strengthen liberals, while undermining the nationalists, is to hold out the prospect of eventual EU

membership. As one Brussels official argues, “the western Balkans are hanging by a thread anyway. If the EU walks away, nationalists will walk straight into the gap.” The situation in Turkey is less alarming, since Turkey is far from being a failed state. Nobody believes that the country will collapse into civil war if its membership talks do not start on schedule in October. But supporters of Turkish membership still believe that they are playing for high stakes: anchoring the Muslim world's only stable pro-western democracy firmly into Europe.

In search of a good argument

The problem is that, although these strategic points may resonate with diplomats, they are much harder to deploy to persuade anxious voters. At a time when western Europeans are increasingly worried about security, the idea of extending the EU's borders to Iraq and Iran, and then scrapping frontier controls from there to the Atlantic—which is what full Turkish membership of the EU would lead to—would strike many as mad. (It would be the equivalent of an American politician arguing for scrapping all border controls with Mexico, with the added complication of a Mexico that was Muslim.) And at a time when western Europeans are increasingly fearful of losing their jobs, the plan to admit a range of ever poorer countries into the EU, where they can compete for jobs on a level playing-field supervised by Brussels regulators, is also a tough sell. Opponents of further enlargement of the EU may be wrong, but they are not obviously crazy. If the political leaders of Europe are to win the argument for expanding their club still further, they are going to have to become a lot more persuasive.

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Fighting terrorism

Imagining something much worse than London

Jul 14th 2005 | WASHINGTON, DC
From The Economist print edition

AFP

The unwieldy Department of Homeland Security has a timely reorganisation, aimed at focusing on the most dangerous threats

Get article background

THE bombing of the London Underground last week prompted an outpouring of sympathy from Americans for their British allies. It also jolted many Americans into fretting about their own security. How vulnerable are they?

Optimists think the danger is overdone. No significant act of terrorism has been carried out on American soil since September 11th 2001. That assault spurred vigilance. Passengers wishing to board aircraft must now queue to remove their shoes. Tougher cockpit doors keep would-be hijackers away from the controls. Stricter immigration rules, such as the requirement that young foreign males must reveal every country they have visited in the past ten years, screen out potential terrorists before they reach American territory.

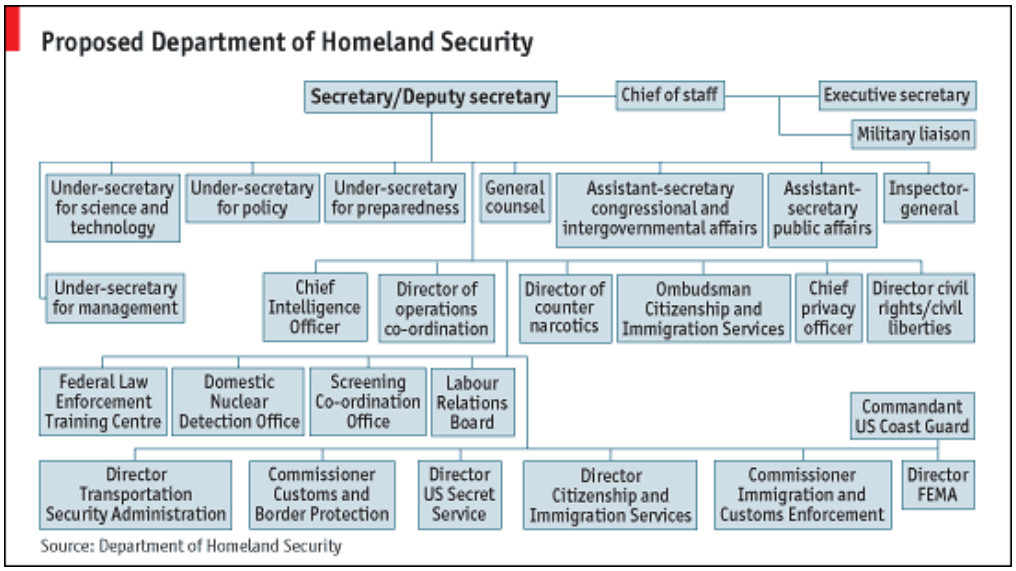
Meanwhile, thanks to American military action abroad, the terrorists have lost their base in Afghanistan and are so busy blowing people up in Iraq that they supposedly cannot find time to blow people up in America. As George Bush reiterated in a speech at the FBI academy this week: “We're fighting the enemy in Iraq and Afghanistan and across the world so we do not have to face them here at home.”

Pessimists have an alternative explanation for the lack of a domestic sequel to September 11th. Stephen Flynn of the Council on Foreign Relations notes that al-Qaeda has “made clear that it wants to carry out a more devastating attack than those on New York and Washington”. Launching such an attack requires time. The reason the terrorists have not picked off easy targets in America, Mr Flynn told Congress in April, is the risk of being arrested before they can commit something “truly catastrophic”. After the London bombings, a poll found that 55% of Americans thought a terror attack on the United States likely in the next several weeks. Last month, only 35% thought so.

On July 13th, Michael Chertoff, Mr Bush's new homeland security secretary, announced a shake-up of his sprawling department. The Department of Homeland Security (DHS) was created in 2002. It involved the full or partial merger of 22 separate agencies, bureaus and offices to form a super-ministry with 180,000 staff to protect the homeland from terrorism and natural disasters.

Even friendly critics charge that the DHS is “weighed down with bureaucratic layers”, “rife with turf warfare” and “lack[ing] a structure for strategic thinking and policymaking,” as the pro-Bush Heritage Foundation put it last year. Mr Chertoff, who took over the DHS in February, appears to agree. “Our department must drive improvement with a sense of urgency,” he said this week. “Our enemy constantly changes and adapts, so we as a department must be nimble and decisive.”

Nimbleness would not, at first glance, be something you would associate with the new organisation he unveiled (see diagram). But bear in mind that the last organogram was even worse. And also that he has bullied through changes.



To co-ordinate the gathering and analysis of intelligence, he is creating a new post of “chief intelligence officer” for the DHS. And he is also forcing the department to focus more on the most serious risks.

Despite last week's horrors in London, preventing conventional bomb attacks on subways is only a middling priority. The system's vulnerability is so obvious that it is the butt of dark jokes: “Unreleased Harry Potter book more secure than US trains” was a recent headline in the *Onion,* a satirical magazine. But a conventional bomb on a train kills relatively few people and airport-style security checks on subways are impractical.

Mr Chertoff is more exercised by the threat of chemical, biological and nuclear attacks. These are hard to execute, but could have catastrophic consequences. A crude nuclear device or efficiently spread biological pathogen could kill tens of thousands. Terrorists would not necessarily need to produce their own unconventional weapons. They could, for example, blow up a chemical plant or a train carrying toxins through a city.

To help him figure out how to ward off such ghastly threats, Mr Chertoff wants to establish a new department-wide policy office. He also plans to appoint a chief medical officer, to deal with biological terror. And he plans to oversee a new (but previously announced) Domestic Nuclear Detection Office. He said he hoped Congress would stump up the money to fund new technology to thwart nuclear threats.

Concentrating on the most high-profile threats is wise, argues Clark Kent Ervin, a homeland security expert at the Aspen Institute, a think-tank. No government can protect citizens against all risks, so it makes sense to focus on the worst ones. Besides, the terrorists seem to calculate that the more spectacular an outrage they perpetrate, the greater its power to intimidate democracies and recruit more *jihadis*.

But Americans who live far from Washington, DC, or a nuclear power plant also want to be protected. The Senate voted this week to allocate to rural states a larger-than-planned share of the homeland security budget, on the ground that no one knows what the terrorists will do next. The senators have a point. An attack on a shopping mall in Idaho might scare more Americans than one on the White House.

This week, Mr Chertoff proposed several concrete ideas for reducing specific risks. Currently, only 5% of containers entering American ports are inspected; Mr Chertoff wants to gather more data about where exactly each cargo has come from, and to deploy more radiation detectors at ports to scan containers.

He has also proposed more “precise” screening in airports. Rather than searching millions of people randomly, the system will “automatically clear low-risk travellers” so that security personnel can “focus on a smaller and more distinct pool of passengers that might pose a threat”. However he phrases it, this is likely to mean fewer pointless searches of grandmothers and Buddhists, and an even rougher time for young men called Muhammad. That will upset civil libertarians but reassure most travellers.

The London bombings seem slightly to have increased America's willingness to trade civil liberties for security. Indeed, many Americans are baffled by Europe's laxer attitude to such things as allowing radical imams to subsist on welfare while preaching the overthrow of the states that shelter them. A poll by the *Guardian* last year found that 13% of British Muslims think that further terrorist attacks on America would be justified. Most have British passports and so may enter America without a visa, notes Peter Bergen, an expert on al-Qaeda at the New America Foundation. How long will that last?

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New York politics

Bloomberg's to lose

Jul 14th 2005 | NEW YORK
From The Economist print edition

No real rivals yet in the coming race for mayor

AFP

Trust me: I'll fail to get what I want

IF YOU cannot succeed, then at least fail gracefully. By mastering that trick in recent weeks, Michael Bloomberg, the mayor of New York City, has moved close to a second election victory in November, though he will be running as a Republican in a heavily Democratic city.

Failure hit Mr Bloomberg with the collapse last month of his much-vaunted plan for a new $2.2 billion sports stadium on the West Side of Manhattan; then it struck again on July 6th, when New York's Olympic bid, which had been built around the stadium, finished a poor fourth, well behind London. Yet his approval rating has jumped to its highest level in three years: 61% of New Yorkers liked the way he is doing his job, according to a poll last week.

Mr Bloomberg's opponents had hoped the stadium would symbolise voters' frustrations with the mayor. He had claimed the stadium would boost a depressed area and bring in the Olympic games, but New Yorkers saw the stadium as an extravagance and the games as a nuisance. Yet, now that the games have gone and Mr Bloomberg has come back with a better plan for a cheaper stadium sited much more manageably in the borough of Queens, voters have decided they quite like the rest of his mayoralty. “Subtract one Manhattan stadium, and the political equation alters,” says Maurice Carroll, a pollster at Quinnipiac University.

With the stadium row over, Mr Bloomberg, a business tycoon until his move into politics four years ago, looks more and more like a winner in November. He has no serious rivals on the right despite his liberal views on social issues, and prospective Democratic challengers are starting to fall away behind him.

The front-runner for the Democratic nomination, to be decided by a primary in September, is Fernando Ferrer, a veteran Bronx politician who inspires affection but lacks charisma. Mr Bloomberg was a registered Democrat until he changed parties to run for mayor in 2001, and he still appeals strongly to Democratic voters dismayed by the local party's strong left-wing tilt. Polls suggest that he would beat Mr Ferrer easily if an election were held now.

Mr Bloomberg has been fortunate with the economy, which now seems to have fully recovered from the September 11th attacks, which hit tourism and employment hard. City tax revenues have been boosted by the effect of George Bush's federal tax cuts, according to Steve Malanga, a senior fellow at the

Manhattan Institute, a conservative think-tank. Those cuts helped fuel a boom on Wall Street: financial markets have surged, doubling profits at the banks, insurers, broking firms and property companies which provide 13% of New York City's jobs and 30% of its wages.

If Mr Bloomberg has been lucky, he has made some of that luck by building on the achievements of his predecessor. Rudy Giuliani imposed welfare reform and the tough policing needed to restore New York's public order in the 1990s. Mr Bloomberg has continued this while offering himself as a gentler and more conciliatory figure than Mr Giuliani ever was, or wanted to be.

Mr Bloomberg has encouraged flexible policing methods that have pushed crime down by a further 20% since 2001. He has kept the city budget in check, partly by pushing property taxes up. He has taken direct control of the school system as part of a long-term struggle to raise standards. And he has also got considerably better at politics: a wry and engaging speaker, he now does more of the stumping and glad-handing needed to dispel the worry that he is a rich businessman out of touch with ordinary people.

A hard record for the Democrats to attack—but the thing that makes it even harder is that asset that Mr Bloomberg brought to politics in the first place: moolah. With a fortune of perhaps $5 billion from his privately held Bloomberg financial-data and media group, he can spend what he likes without worrying about matching public funds or the spending limits that go with them. His television ads have been running since May. Of course, the West Side stadium reversal has shown that even a $5 billion man can't always get what he wants; but many New Yorkers may find that rather reassuring as well.

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Greyhound racing

Gone to the dogs

Jul 14th 2005 | CROSS LANES, WEST VIRGINIA, AND PHOENIX, ARIZONA
From The Economist print edition

AP

A working-class sport in need of more money, more punters and a makeover

ENTERTAINMENT in Cross Lanes, West Virginia, is scarce on a Saturday night, so the Tri-State Racetrack & Gaming Centre pulls in a decent crowd. The car park is packed. The punters scrutinise their programmes, television screens and the greyhounds parading the turf. When the gates are lifted and the hounds bolt, the spectators holler. At the end, fewer seem quite so optimistic—but most will be back.

Greyhound racing is holding up well in poor states like West Virginia. But tracks in posher areas are hurting. The American Greyhound Track Operators Association lists 46 greyhound courses; five years ago there were 50. Two tracks have closed this year: Multnomah in Oregon and Plainfield in Connecticut. Others are losing money, according to Eric Wilson, the association's president.

Booming Arizona always used to be one of the industry's brighter spots. But on a Thursday night at the Phoenix Greyhound Park, only 200 people show up. Attendances are 29% below the level five years ago, says the park's marketing manager, Bac Tran. Over the same period, Phoenix's population has grown by nearly a tenth.

One nagging problem for the industry is fears about animal cruelty. The Humane Society of the United States has voiced concern about racing injuries. Stephanie Shain, the society's outreach director, claims that, at the end of their four-year career, most dogs are killed. The industry disputes this. The director of the Arizona chapter of Adopt A Greyhound, Kari Morrison Young, says the dogs live very good lives in their racing kennels and then retire to homes. “Human athletes should have it so good,” she says.

The main problem, moan the dogmen, is other forms of gambling. Internet betting is hurting a bit, but punters are being wooed away by casinos and lotteries. Payouts for greyhound racing seem low. A $5 bet on Tailwaggin Tiff, a relatively unfancied dog at Cross Lanes, paid out just $15 when she won. And unlike the glitzy casinos, greyhound tracks offer a sad world of sticky escalators, grubby walls and horrible food. Discarded programmes and half-eaten nachos litter the smoky halls of Cross Lanes. An old man shuffles past, his unbelted, sagging trousers revealing a *derrière* which is distinctly less pert than those on display on a Vegas chorus line.

The industry is thinking about sprucing up its act. Several tracks are seeking regulatory approval to offer patrons other gambling options, such as video lottery terminals and card rooms. And some of the punters are doing rather well.

A spectacled Cleophus Johnson attends the Phoenix track nightly. A self-described “pro-better” Mr

Johnson is armed with a mobile phone, pager and binoculars. Greyhound racing has been his only income for five years, he says, and this year he's up $40,000. Asked about the downturn in the sport he follows, the resourceful Mr Johnson looks unfazed. “Less people, more for me.”

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The great chickenshit war

Watch that bird's rear

Jul 14th 2005 | LITTLE ROCK
From The Economist print edition

Oklahoma takes on the Arkansas poultry business

TWO things come out of chickens. One is much prized; the other less so—particularly if it sloshes across state lines. Every day, the toxic run-off from the poultry houses in Arkansas streams into the huge Illinois River watershed, which supplies drinking water for 22 public water utilities in eastern Oklahoma. For years, Oklahoma officials have pleaded with their counterparts in Arkansas, which is home to many of America's biggest poultry businesses, to curb its chicken litter. Now they have gone to the courts.

The Oklahomans admit that some of their own chicken farms also foul their water supply, which has abnormally high levels of phosphorus. But they blame Arkansas for most of the damage. The phosphorus from poultry litter is equivalent to the waste that would be generated by 10.7m people (more than the combined populations of Arkansas, Kansas and Oklahoma).

In 2003, the two states haggled out a deal which improved phosphorus levels—but not enough, according to Oklahoma's attorney-general, Drew Edmondson, who has filed a lawsuit against 14 Arkansas poultry producers, claiming violations of various federal and state environmental and nuisance laws.

On the face of it, Mr Edmondson has a good case. Poultry farms are not pleasant places: hundreds of chickens crammed into poorly lit, stinking houses awaiting slaughter. Some of the chickenshit—it is hard to call it anything else—sits in open-air lagoons, creating ammonia. But most of the waste is sold to other farmers as untreated fertiliser. It then makes its way into the murky Illinois River, which Oklahoma, rather hopefully, is trying to make into a tourist attraction.

That does not mean that Mr Edmondson will win. Poultry is a $2-billion-a-year business in Arkansas—and many of the locals think polluting Oklahoma is a small price to pay. Mr Edmondson says he is not trying to close the business down—just make it more responsible for managing the “tons of waste that comes out of their birds”. And he wants the chickenshit to be declared hazardous waste.

If Mr Edmondson won, it would change the structure of the business. The vast majority of farmers work under contract to big businesses, such as Tyson Foods, a legendary operator in Arkansas. The poultry company gives the farmer chicks, along with their feed and medicine. It owns the birds and collects them for “processing”. But the farmer is usually responsible for the waste. Mr Edmondson wants to make the companies responsible for the waste, too.

The poultry industry has threatened to leave Arkansas if requirements become too stringent. Mexico is one option, though the cost of shipping the birds would hurt profits in a low-margin business.

There is also a personal edge to the dispute. Earlier this year, a group of pro-business state legislators in Oklahoma staged a pre-emptive strike against Mr Edmondson, with a bill that would have limited the attorney-general's power to file pollution lawsuits against companies. That was beaten back by environmentalists. But it helped persuade Mr Edmondson that he should file suit against the poultry giants while he still had the right to do so.

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Arkansas and the presidency

Mike Huckabee's dream

Jul 14th 2005 | LITTLE ROCK
From The Economist print edition

Preacher, guitar-player, erratic dieter: ideal White House material?

AP

Hope, on the run

COULD Mike Huckabee, governor of Arkansas, be president of the United States? The idea of following Bill Clinton seems to have occurred to the ambitious Republican. Whether that says more about the hubris of Mr Huckabee or the fluidity of the race to succeed George Bush remains to be seen.

To the non-Arkansan eye, Mr Huckabee would seem to have a few minor disadvantages, such as very little national-security experience. But this week, he makes a small bound towards greater national prominence by becoming chairman of the National Governors Association at their annual meeting. There he will rub shoulders with Iowa's Tom Vilsack (host of the jamboree, in Des Moines), Virginia's Mark Warner (the outgoing chair of the NGA) and Mitt Romney of Massachusetts, all of whom are thinking of running for president.

Mr Huckabee has several cards to play. As a former Southern Baptist minister, he can still preach with the folksiest. The NASCAR-dad vote—which Mr Warner is pursuing from the Democratic side—is Mr Huckabee's base. He grew up poor (living in Hope, Mr Clinton's hometown) and plays bass in a band called Capitol Offence. As for his wife, Janet, she once rounded up rattlesnakes, hunts, fishes and occasionally races stock cars.

His most energetic efforts at self-promotion have centred on health. Earlier this year he wrote a book, “Quit Digging Your Grave With A Knife And Fork”, about his own startling weight loss. He says he will spend his year as NGA chairman promoting a “Healthy America” initiative, a copy of one he created in Arkansas. With health-care costs growing at twice the rate of inflation at both state and federal level, he wants Americans to learn that three things are driving these costs: inactivity, obesity and smoking. “Control of those things would add 13 years to a person's life and prevent chronic diseases,” he says.

Mr Huckabee's new NGA position gives him a good excuse to visit any state—New Hampshire, for instance—under the guise of leadership. He will step down from the post in mid-2006, leaving office in early 2007, just in time to create an exploratory committee.

A little southern chutzpah took Mr Clinton a long way, but he arrived with a plausible set of New Democrat ideas and he ran in a different era. In 1992, it was possible to argue that the only issue was “the economy, stupid”. Nowadays a presidential candidate, especially a Republican one, surely needs more experience of foreign policy than Mr Huckabee has so far accumulated.

Yet the mere fact that the governor of a small state is dipping his toe in these deep waters shows how open the Republican race is. With Dick Cheney and Jeb Bush supposedly non-contenders and many conservatives nervous about John McCain and Rudy Giuliani, there is a chance for an outsider to make a stir. Whether that ends up being Mr Huckabee is another matter.

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The second-term blues

Jul 14th 2005
From The Economist print edition

George Bush and his main adviser are in a pickle

WHAT is it about second-term presidents? Richard Nixon was hounded out of office by Mark Felt (aka Deep Throat). Ronald Reagan was tarnished by Iran-contra. Bill Clinton was brought to his knees by Monica Lewinsky. Even Washington and Jefferson were afflicted by second-termitis. Now it is George Bush's turn to sing the second-term blues.

There is no better symbol of Mr Bush's downward trajectory than Karl Rove. In the wake of Mr Bush's victory last November, Mr Rove was strutting around town like a peacock—and justifiably so. Now the peacock has morphed into a pheasant. Mr Rove is in the sights of two of Washington's most bloodthirsty predators: a tough, ambitious prosecutor and an embittered media, desperate to get even with an administration that has often played them for fools.

It is now clear that Mr Rove told *Time*'s Matthew Cooper that Joseph Wilson, a critic of the Iraq war, was married to a CIA agent. Mr Rove's supporters counter that the context and the details of this conversation will help their man: we already know it was Mr Cooper who telephoned Mr Rove, rather than the other way round, initially to talk about welfare reform, and Mr Rove didn't actually name Valerie Plame as the agent. It is equally clear that this story will consume Washington for weeks.

It still looks very unlikely that Mr Rove is in such serious legal jeopardy that he will have to resign. David Gergen, an adviser to several recent presidents, argues that White House staff simply do not come across information that tells them whether somebody is a covert CIA agent or not. But he thinks that Mr Rove and his colleagues could suffer from a serious credibility problem that could put them on the defensive.

Indeed, the White House is in full Nixon mode: hunkered down and fending off a baying press pack. Scott McClellan, Mr Bush's press secretary, repeats banalities while trying to raise the bar for wrongdoing. Back in September 2003, he said that anybody found to be involved in the Plame unmasking “would no longer be in this administration”. Now he refuses to comment.

It is hard to understate the consequences of Mr Rove being distracted from his job. The man who Mr

Bush refers to as “Boy Genius” and “Turdblossom” is the third-most-powerful person in the Bush administration, after the president and the vice-president. This is not just to do with his relationship with Mr Bush—though he has been at his side ever since he ran for the Texas governorship in 1994—but with the nature of his job. Previous presidents have had indispensable campaign operatives: think of Bill Clinton and James Carville, or Mr Bush's father and Lee Atwater. And previous presidents have had indispensable policy advisers: think of Harry Hopkins in FDR's administration. Mr Rove is the only political adviser to combine both roles.

To make matters worse, Mr Rove is more important now than in the past. Mr Bush's formula for making his administration more efficient in the second term has been to send his most loyal White House policy advisers (such as Condoleezza Rice and Margaret Spellings) to run various cabinet departments. This has made for a more unified administration, but it has also left Mr Rove with even more policy on his plate. He doesn't just brief the president on matters big and small, liase with Congress, and act as a bridge with the wider conservative movement; he drives the whole domestic agenda from the White House.

Mr Rove's problems are playing out against a depressing background. The Iraq war is turning into a running sore (45 people were killed last Sunday alone). Mr Bush's signature domestic reform, Social Security, is turning into a damp squib. Even potential opportunities come laden with problems. Sandra Day O'Connor's recent resignation gave Mr Bush a chance to reshape the Supreme Court in a more conservative mould. But if he takes the chance, he risks a civil war with the Democrats; and if he fails to take it, by appointing his friend Alberto Gonzales, for example, he risks alienating his conservative base. Conservatives have not been labouring for 40 years to put someone on the Supreme Court who believes in both affirmative action and abortion rights.

Slip-sliding away

The late Richard Neustadt argued that the problem with second terms is hubris. Second-term presidents get into the habit of over-rating their own powers, as FDR did when he tried to pack the Supreme Court. They also start meditating on their place in history. Mr Bush's advisers have long argued that their boss is a “transformational” president when it comes to foreign policy. But the trouble with transformational presidents is that they cannot do small things, like tinkering with entitlements; they need to do big things, such as revolutionising Social Security. And these will probably prove too much for them.

The counterpart to hubris is that the mistakes of your first term come back to haunt you. Mr Bush's team exaggerated Saddam Hussein's weapons of mass destruction and trampled over bits of the foreign policy establishment in the process (the Rove affair has its roots in a bitter argument between the White House and the CIA over whether Saddam had tried to buy uranium from Niger). Mr Bush also alienated the Democratic Party with his eagerness to use national-security issues to win the 2002 and 2004 elections. The furious Democrats have now come up with a political strategy: give the bastard nothing.

It is not all bleak. Mr Bush has a good chance not only of winning the Supreme Court fight but also of being re-energised by it. The Democrats are still a mess. But things are not as simple as they looked back in November. During the dark days of the Iran-contra affair, Ronald Reagan used to joke that things had got so bad that he was suffering from sleepless afternoons. Mr Bush could well end up with the same disorder.

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Correction: Anti-Americanism

Jul 14th 2005
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In some copies of *The Economist*, a table of Americanophiles in our story on the Pew Global Attitudes Project ("Still not loved. Now not envied," June 25th), showed Poland twice. The Poles should have come third, and the country that came bottom was Jordan, not Poland. Apologies to all the Americans, Poles and Jordanians disturbed by this. This error has been corrected online.

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Brazil

Following the money trail

Jul 14th 2005 | RIO DE JANEIRO
From The Economist print edition

The payola and party financing scam that has rocked Lula's government shows that Brazil has been less good than it thought at defeating graft

Get article background

"FIGHTING corruption and upholding ethics in the public sphere will be central and permanent objectives of my government." So intoned Brazil's president, Luiz Inácio Lula da Silva, on taking office in January 2003. To many Brazilians, those words are starting to ring hollow. Barely eight weeks have passed since a postal-service bureaucrat in Brasília was filmed pocketing 3,000 *reais* ($1,270) from a would-be government contractor. That bit of graft looks like mere mischief now, as Brazil's worst political scandal for fifteen years swells to cinematic proportions.

Much of it has been scripted by a single snitch, Roberto Jefferson, a rogue former government ally. He has accused some of Lula's closest aides of commanding an epic scheme of bribes. Suitcases stuffed with cash, shadowy lobbyists, espionage, public servants whose fortunes bloom overnight, and bottomless campaign slush funds; each day's revelation outdoes the last and seems to back Mr Jefferson's claims, despite the denials of those involved. Two separate congressional panels are investigating whether senior figures in the government and the ruling Workers' Party (PT) bought off federal lawmakers, squeezed contractors for kickbacks and bankrolled the party from the public till.

Shopping for votes is hardly news in Brasília, where presidents must routinely barter for support among fickle lawmakers. Yet the breadth of the alleged scams, which may have cost taxpayers $1 billion, is a heavy blow to Lula, who had built his reputation on honesty. He has fired a dozen officials, reshuffled his cabinet and arranged for a clean-out of his party's leadership. The latest *companheiro* to stumble was Luiz Gushiken, Lula's enigmatic communications wizard. On July 12th, he was stripped of ministerial status after reports that his former business partners have been blessed with fat federal contracts.

"The PT will have to be reinvented," says Tarso Genro, who moved from education minister to become the party's caretaker president. So far, Lula himself remains untainted. But there is much speculation as to whether he can rouse his government from the political paralysis that has beset it, much less win a second term in October 2006.

Brazilians have never been innocents in politics. *Rouba mas faz* (he steals but gets things done) was the

shameless reputation of Adhemar de Barros, a former São Paulo governor. The voters shrugged. Just as inflation was thought to fuel growth, kickbacks were long seen as a lubricant greasing the wheels of public business. Crookedness flourished under Brazil's long military dictatorship (1964-1985). Yet with the return of democracy, an unmuzzled press and the rebirth of Congress all this was to have changed.

In many ways it did. When a shifty presidential moneyman was caught harvesting kickbacks from businessmen, students painted their faces black and took to the streets, convincing Congress to impeach Fernando Collor de Mello in 1992. That led to scores of anti-corruption laws and congressional probes, tighter rules for spending and moving money, and many civic watchdog groups. “Society no longer tolerates politicians who steal in the name of getting things done,” says Mailson da Nóbrega, a former finance minister.

So why is corruption seemingly still so pervasive? One reason is that government has become too bulky and too opaque to control. Lula declared that he wanted to “rescue” public service: he created half-a-dozen new ministries and some 120,000 new government jobs, many of them given to PT loyalists. Partly as a result, Brazil's tax burden has risen to 37% of GDP, up from 25% a decade ago and twice the Latin American average. “The bigger the bureaucracy, the less transparent,” says Guilherme Afif Domingos, head of the São Paulo commercial association, who is pressing for tax reform.

This has added to the roll of political appointees, who now total 25,000. Many top jobs are awarded as spoils, some to Lula's ravenous coalition allies. Scores of political appointees are lodged in the richest ministries (health, social security) and state-owned companies (Petrobrás, the postal service), where looting is common.

Ironically, since the Collor scam, Brazil has created some of the developing world's most powerful tools to punish profligacy and catch budget pirates. With data banks and digital tax identification cards, the tax authority can track even the fanciest financial transactions. By law, banks must notify the central bank of all deposits of more than 100,000 *reais,* and budget overspenders can be jailed.

In practice, there is little enforcement. Because public-sector auditors are overworked or beholden to the bureaucracies they inspect, pilfering often goes undetected. “This scandal came to light not because of Congress, central-bank auditors, or the efforts of the federal police,” says Gilberto Amaral, a tax consultant. “We know because someone involved in the corruption scheme talked. These are gangsters settling scores.”

Much has been made of how the current crisis has been the PT's come-uppance, a party impaled on the banner of ethics it brandished for 25 years. More startling is that Brazilian law and society were supposed to have been better prepared to detect and prevent such scandals. Instead Brazil has been served up another chapter of one of its oldest soap operas, but this time with the PT cast as the villain.

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Canada

Devil down south

Jul 14th 2005 | TORONTO
From The Economist print edition

A cross-border row over water pollution

CANADIANS often get angry when the United States throws up barriers to their exports, such as cattle or softwood. But now Canada is desperate to block an unwanted American product. Officials are meeting their counterparts in Washington, DC, to try to stop the state of North Dakota from draining the polluted waters of Devil's Lake into their own Lake Winnipeg. Undeterred, the authorities of North Dakota plan to let the waters flow when a channel is completed later this month.

Devil's Lake lies about 160km (100 miles) south of the Canadian border. It has no natural outlet, shedding water solely through evaporation. But a recent series of wet years have swollen the lake to record levels, submerging 28,000 hectares (69,000 acres) of farmland and 300 homes. In 2003, the United States Army Corps of Engineers published a feasibility study for a $186m project (of which North Dakota would have paid $70m) to drain the lake into the Sheyenne river. This feeds into the Red river, which flows north across the border to Lake Winnipeg, in the province of Manitoba.

Manitoba immediately objected. With no outlet, Devil's Lake has accumulated high concentrations of sulphates, arsenic, phosphorus and other pollutants. Canadians also worry that the outflow could bring invasive species, parasites and disease to Lake Winnipeg's C$25m ($20m) fishery industry.

North Dakota had a different objection to the army's plan: its cost. So it has pressed on alone. By foregoing a full environmental review, taking a direct route, and leaving out clean-up measures, the state has built a 14-mile drainage channel for only $28m. It was due to open on July 1st, but has been held up for a few weeks, ironically by heavy rains.

Back in 1909, Canada and the United States signed a Boundary Waters Treaty that set up an International Joint Commission to deal with such disputes. But American officials have resisted a Canadian request to refer the matter to the commission. Instead, discussions have taken place at the Council on Environmental Quality, an American federal government co-ordinating agency.

North Dakota insists that the channel is unlikely to do much damage. State officials say there is no

evidence that invasive species or parasites will be a problem downstream, and they promise to limit the flow of water so that pollutants will be diluted by cleaner downstream waters. They also promise to monitor water quality.

That doesn't temper Canadian resentment. Opponents of the project on both sides of the border point out that if the treaty is by-passed, next time it might be Americans who are in the receiving line for Canadian water pollution.

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Nicaragua

Searching for a new combo

Jul 14th 2005 | MANAGUA
From The Economist print edition

Outsiders challenge a deadlock

Get article background

ANY student of the mathematical discipline of combinatorics would do well to take a look at Nicaraguan politics. The past few years have seen every possible combination of alliances between the three main political factions: the left-wing Sandinists, the right-wing Liberals and a Liberal offshoot loyal to the president, Enrique Bolaños. Add in a few breakaway candidates for next year's presidential election, and the formula for Nicaragua's future becomes even more complicated.

If, that is, the election does indeed take place as scheduled in November 2006. An alliance of the Sandinists and Liberals, who together control 81 of the 90 seats in the legislature, is seeking to bring the ballot forward by a year. But there are both legal and practical difficulties. Whatever games they may play, all the parties know that the vote will probably be held in 2006, according to Rodolfo Delgado of Managua's Institute of Nicaraguan Studies.

The bizarre Liberal-Sandinist alliance dates to 2003, when Mr Bolaños set in motion the arrest for corruption of Arnoldo Alemán, his Liberal predecessor. Mr Alemán, who still controls the Liberals, had chosen Mr Bolaños to succeed him. In retaliation, Mr Alemán first ejected the president from the party and then joined with Daniel Ortega, Nicaragua's former president and still the Sandinists' leader, to pass constitutional changes limiting the president's powers. All appointments now require approval by the legislature—something which Mr Bolaños refuses to recognise. This might make sense in theory, but it is being used to hobble government.

The strife between the parties could open the door for rebels. Herty Lewites, a former Sandinist mayor of Managua, is denounced as a tool of capital by Mr Ortega's acolytes. Eduardo Montealegre, a former Liberal, is called a hypocrite and a liar by his old party. Each hopes to get on the presidential ballot as the candidate of one of a number of small parties which lack influence but which have all-important legal registration.

Many Nicaraguans would like to see an alliance between the two outsiders. According to a poll by Borge & Associates, a Costa Rican polling firm, a ticket of Mr Lewites with Mr Montealegre as his vice-president would win 68% of the vote. However, the two men might struggle to win a majority in Congress.

Carlos Wilfredo Navarro, a Liberal congressman, insists that his party's machine will prevail. The Sandinists, with an even stronger organisation, have similar hopes for Mr Ortega—a prospect that worries the United States, which fought his regime in the 1980s. But Nicaraguans may conclude that it is time for new political combinations.

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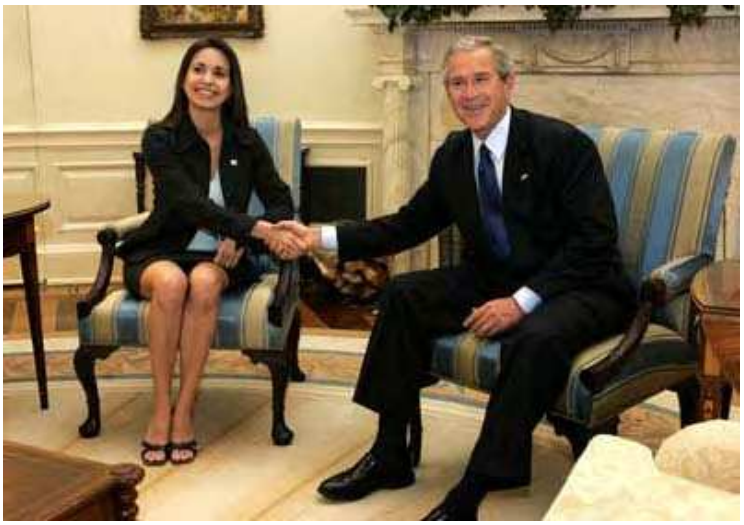
Venezuela

To vote or not?

Jul 14th 2005 | CARACAS
From The Economist print edition

The opposition is damned either way

AP



Ms Machado meets an admirer

Get article background

IT IS election time again in Venezuela—and will be for the foreseeable future. From now until 2021, just one year (2014) is guaranteed to be free of some vote or other. The results, too, may have a predictable feel. Since 1998, when he was first elected president, Hugo Chávez and his allies have defeated the opposition in no fewer than eight votes. Mr Chávez, a former army officer who now calls himself a socialist revolutionary, is not only Venezuela's savviest politician but its most popular, with an approval rating of over 70%.

Barring the unexpected, this suggests that the president and his allies will achieve sweeping victories in local elections next month, a parliamentary poll due in December and a presidential contest a year later. But they are taking no chances. They have engineered a partisan 4:1 majority on the electoral council (CNE), which has broken parts of the electoral law, for example, by last-minute switches in where electors vote. This month, in what looks like an effort to intimidate the opposition, a court consigned for trial on conspiracy charges four leading members of Súmate, an electoral pressure group which played a leading role in organising a failed recall referendum against the president last year. If found guilty, the four face jail terms of up to 16 years.

The government argues that Súmate is not an NGO, as it claims to be, but a disguised political party. Officials say it is plotting with the United States to overthrow Mr Chávez. The evidence? A small grant from the National Endowment for Democracy. This is a bipartisan body funded by the United States' Congress. Súmate says it used the money for workshops on democracy. Prosecutors argue it funded a plan “to destroy the [country's] republican system”.

One of the four, Súmate's telegenic vice-president, María Corina Machado, has recently been received by both George Bush and his secretary of state, Condoleezza Rice. To some in Venezuela's divided and inept opposition, this looks like an ill-judged attempt to anoint Ms Machado as its leader (something she denies). It was seized on by *chavistas* as further evidence of an “imperialist plot”.

Absurd though the charges against its leaders are, Súmate no longer looks like the neutral pressure group it once claimed to be. It risks going the way of other opposition-led organisations, such as the trade unions, business groups and the media. All were sucked into the vacuum left by the implosion of Venezuela's political parties and were weakened and compromised.

Nonetheless, Súmate's criticisms of the CNE are not easily dismissed. It says that the electoral register is no longer trustworthy and that a combination of voting machines and fingerprinting devices at polling stations threatens the secrecy of the vote. Jorge Rodríguez, the CNE's chairman, rejects these claims.

Many Venezuelans do not. Polls suggest that up to 60% of the electorate have doubts about the CNE's integrity, and that a similar percentage may not turn out next month. But turnout is always low in local elections in Venezuela, so deliberate abstention is unlikely to tarnish their legitimacy, while handing Mr Chávez victory on a plate. Divided over whether or not to abstain, the opposition seems headed for defeat either way.

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Colombia

Defending a defence policy

Jul 14th 2005 | BOGOTÁ
From The Economist print edition

Behind a ministerial change

SINCE taking office as Colombia's president, Álvaro Uribe has made security his top priority. He has also insisted that he dislikes chopping and changing his ministers. Yet on July 8th he appointed his third defence minister in as many years after the incumbent, Jorge Uribe Echavarría (not related to the president), resigned not long after surviving a censure motion in the country's Congress by just one vote.

Officials insist that defence policy will not change. Mr Uribe Echavarría had championed the Patriot Plan, a two-year army operation by 17,000 troops in the southern jungles against the strongholds of the FARC, the main left-wing guerrilla group. He had also pushed through administrative reforms, forcing the various armed services to work together through joint regional commands and merging and streamlining their procurement. All of these initiatives will move forward without any change, according to Jaime Bermúdez, an adviser to the president.

Mr Uribe Echavarría, an outspoken conservative, made mistakes. He ignited a row with Venezuela's president, Hugo Chávez, by announcing that Colombia had paid a reward for the abduction of a FARC leader in Caracas. But many of his critics in Congress were friends of military officers opposed to his reforms. They never tired of bringing up his visits to a woman jailed for cocaine smuggling before he became minister.

Camilo Ospina, the new minister, was the president's legal adviser and, like his predecessor, has no previous defence experience. The reality is that President Uribe is in many ways his own defence minister: he visits towns under guerrilla siege, and calls up army officers for reports after clashes.

This hands-on leadership has helped to deliver a big improvement in security in Colombia. But it has drawbacks. The government faces criticism over a surge in attacks by the FARC, which have killed some 300 soldiers this year. Some Colombians say this proves the failure of the Patriot Plan. According to a foreign military analyst, the operation is a strategic success: the army has destroyed a huge network of roads built by the FARC under the jungle canopy, disrupting its lines of communication. But the army is at full stretch, needs reinforcements and, above all, needs to explain Colombia's war better to the voters. Mr Ospina has a job to do.

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Jihadists in the Middle East

Cradle of war, school of jihad

Jul 14th 2005
From The Economist print edition

Al-Qaeda's allies have turned Iraq into a new Afghanistan

ON JULY 7th, as bombs were going off in London, an Islamist website released a videotape showing an Egyptian diplomat, blindfolded and handcuffed. In an accompanying statement the "Al-Qaeda Organisation for Jihad in the Land of the Two Rivers" denounced the diplomat, Ihab al-Sharif, as an "enemy of God" and declared that its holy warriors had by now killed him. It warned other Arab and Muslim countries that if they stationed diplomats in Baghdad, they would suffer the same fate.

The video did not, like earlier ones, show the actual killing. It was nevertheless the latest *coup de théâtre* by the group and its leader, Abu Musab al-Zarqawi. The Jordanian-born Mr Zarqawi, who swears allegiance to Osama bin Laden, is held responsible for some of the most brutal violence in Iraq. The suicide bombings, the kidnapping and beheading of hostages—all displayed on sympathetic websites—have helped turn Mr Zarqawi into a folk-hero and Iraq into the arena of choice for young Muslims who want to kill Americans. He has skilfully used the internet to amplify his exploits amongst Muslims around the world. A CIA report circulated among American government agencies in May, and summarised a few weeks later in the *New York Times*, spelt out what many experts had already concluded, that post-invasion Iraq is playing the role Afghanistan did in the 1980s and 1990s, as a nursery of Islamic extremism.

Only a few months ago American officials were saying Mr Zarqawi was on the run. They had killed or captured over 20 of his senior people and, potentially even more important, they had found his laptop. He was certainly wounded in an American attack. And there were even rumours, strongly denied by the man himself, that he had been forced to seek medical treatment outside the country for serious injuries.

But even if it has suffered setbacks, Mr Zarqawi's group is still able to strike with deadly effect. Its strategy is to drive wedges between Iraq and its Arab and Muslim hinterland, between Iraqi Sunni and Shia, and between the Iraqi people and the new government of Ibrahim al-Jaafari.

As well as the killing of Mr Sharif, other Arab representatives have also been targeted. On July 5th gunmen fired on top diplomats from both Bahrain and Pakistan. The attacks were designed to weaken the Jaafari government by denying it international legitimacy. Mr Sharif, had he lived, would have become the first full Arab ambassador in Iraq since the fall of Saddam Hussein. Instead he was snatched on a Baghdad street while buying a newspaper; unwisely, he had been unguarded. After his death four days later, Egypt said it would "temporarily" station its diplomats in neighbouring Jordan, as will Pakistan now.

For Mr Zarqawi there are three enemies: “Crusaders”, Jews and *rawafidh* (literally, rejectionists; a derogatory term for the Shia). He misses no opportunity to stir up Sunni-Shia animosity. When Sunni clerics accused the Badr Brigade (the militia of a prominent Shia party) of sending hit squads to target Sunnis, Mr Zarqawi issued an audiotape on July 5th announcing the formation of a rival force, the Omar Brigade. This would specialise in killing Shia, leaving the rest of Mr Zarqawi's forces free to fight Crusaders. Attacks on several Badr commanders followed. (The Badr Brigade, which claims unconvincingly to have turned itself into a purely political movement, has denied involvement in sectarian killings.)

Foreign fields

Mr Zarqawi's influence, though focused on Iraq, is not confined there. Some experts believe the network he developed in Europe (with Milan as its hub) to send young Muslim recruits to Iraq has recently been bringing some of them back in the other direction. One theory is that some may have been involved in the planning or execution of the Madrid bombings last year and last week's London bombings.

The “Iraq effect” is worrying Saudi Arabia, too. Hundreds of young Saudis are thought to have joined the jihadists in Iraq. This has upset the Bush administration, adding yet another item to its list of grievances with the Saudi princes in the wake of the terrorist attacks in America on September 11th 2001. No less troubling is the thought that some of these young recruits will eventually return home to fight in the insurgency being waged by the self-styled “Al-Qaeda Organisation in the Arabian Peninsula”.

Reflecting a new realism in Riyadh, the country's powerful interior minister, Prince Nayef, has made it clear the government is bracing itself for future trouble. The first generation of jihadists, groomed in Afghanistan in the 1980s, were bad enough, he said on July 10th; the new generation would be even worse.

The Saudi insurgency flared up in May 2003, shortly after American-led forces had toppled Saddam Hussein. In princely minds, the two events are linked. The aim of the Saudi insurgents is to punish America by driving its citizens (and other infidels) from Saudi soil, and to punish the House of Saud for the quiet logistical support that it gave to the Americans during the Iraq war.

The Saudi security forces have gone some way towards suppressing what they refer to as the “deviant group”. Over the past two years they have killed over 100 militants including, on July 3rd, Younis al-Hayari, a Moroccan who headed their latest “most wanted” list. But the fear is that a weakened insurgency in Saudi Arabia could revive if young, battle-hardened jihadists return from Iraq and breathe new life into it.

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Israel's suicide-bombing

Ploughing on regardless

Jul 14th 2005 | TEL AVIV
From The Economist print edition

Suicide-bombers try to derail the Gaza pullout

AFP

Under attack again

THE fragile five-month ceasefire between Israelis and Palestinians was broken again on July 12th, when a Palestinian suicide-bomber blew himself up near a shopping mall in the Israeli beach town of Netanya, killing five people and injuring about 18 others. For Israelis, who have recently been getting accustomed to a relatively quiet life, the bombing served as a bleak reminder of the four-year Palestinian *intifada*, as the country readies itself for the evacuation of Jewish settlements from the Gaza strip and the northern West Bank, scheduled to begin in mid-August.

That the ceasefire has held at all—deaths on both sides are down compared with the same period last year—is thanks to the forbearance of groups like Hamas, the main Islamic militant group, which calculates that Palestinians want a period of calm, and to international pressure in anticipation of the Gaza withdrawal. Responsibility for the Netanya bombing was claimed by Palestinian Islamic Jihad (PIJ), a smaller group. The PIJ often says it is retaliating for Israeli violations of the ceasefire. Some people, such as Martin Indyk, a former American ambassador to Israel, think it is trying to disrupt the ceasefire under the orders, and with the material backing, of Iran.

Whatever the cause, the bombing has once more put the leadership of Israel's prime minister, Ariel Sharon, and his Palestinian counterpart, President Mahmoud Abbas (Abu Mazen), to the test. Both have failed to engage in a meaningful dialogue since Mr Abbas replaced Yasser Arafat earlier this year. Their meeting last month was a disaster, as the two lectured each other—and their respective home audiences—rather than engaging in substantive negotiations. Pledges made to each other remain mostly unfulfilled.

Israel's response to the deaths in Netanya was, on July 13th, to send troops back into the Palestinian border town of Tulkarm, 15 kilometres (9 miles) east of Netanya, considered to be the home of the PIJ's most wanted militants. Tulkarm had been handed over to Palestinian security control only four months before. By the same afternoon, two Palestinians had been killed and several others arrested. On July 14th, Israeli soldiers killed a Palestinian militant in another West Bank town, Nablus. Israeli officials repeated their threats to resume targeted assassinations of PIJ operatives. Even Shimon Peres, Israel's doveish deputy prime minister, called for a “heavy hand” against the PIJ. But the relatively few deaths in Netanya spared Mr Sharon from political pressure to retaliate more fiercely or even put the disengagement on hold.

But Palestinian attacks are not even Mr Sharon's main concern. He is facing opposition from his former allies in the Israeli right wing, who blame him for “rewarding terror” by his planned Gaza withdrawal.

Shortly before the bombing, he had gathered together Israel's security chiefs to assess the domestic situation. They had heard reports about hundreds of protesters flowing into the Gaza settlements, aiming to reinforce their inhabitants and complicate the pull-out. Violence by settlers holed up in a beachfront hotel earlier this month shocked mainstream Israelis, but gave a taster of what the army might be up against. Consequently, on July 13th the prime minister signed a decree blocking all Israelis who do not live in the Gaza strip from entering. This caused a fury amongst the protesters, who threatened to block (not for the first time) the main Israeli highways in retaliation.

Mr Abbas, however, faces a more considerable challenge. Squeezed between Israeli pressure and Palestinian insubordination, he favours compromise and persuasion of militant groups over confrontation. The bombing once again showed that a small group like the PIJ can defy his leadership, thus reinforcing Israel's assertion that he is a hopeless weakling. Hearing the news from Netanya, Mr Abbas—a long-time critic of terror—condemned the attack as “stupid” and pledged to arrest its perpetrators. But the Palestinians' deputy prime minister, Nabil Shaath, also condemned the Israeli army's action in re-taking Tulkarm as a “new violation of all agreements”.

Once again, Mr Abbas called for a meeting of Palestinian groups, apparently hoping that the consensus among them would bring pressure on the PIJ to hold its fire at least until the Israelis leave Gaza. Few on either side, though, took his declarations seriously. Senior Israeli officials went as far as foreseeing his imminent collapse, noting that American pressure to “strengthen Abu Mazen” has dwindled recently. Claims that Mr Abbas is not doing enough against terror have followed every previous violation of the ceasefire, and have looked designed to weaken him. But the claim that he is about to fall looks rather like wishful thinking.

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AIDS in Zambia

Talkers, and doers

Jul 14th 2005 | LUNDAZI
From The Economist print edition

This year's big AIDS meeting starts in Rio de Janeiro next week. Meanwhile...

Get article background

IT IS lunchtime, and suddenly the Savannah grill of Lusaka's InterContinental hotel has filled up with men in suits wearing red ribbons: another AIDS gathering is at work, or rather taking a break. All over Zambia, not just in the capital, similar workshops may be under way. They are regular events, especially in places like the Victoria Falls. The hotels there are good, and since they are far from most of Zambia's big towns, the civil servants and others who attend them are entitled to a perk or two for doing so: a distance allowance, an overnight allowance, maybe others. No wonder these get-togethers are popular.

Meetings can be valuable. In Lundazi, a remote township at the other end of the country, Christa Nyirenda, a local HIV-AIDS co-ordinator, says she has had only two training sessions and would welcome more. Many of those involved in trying to deal with AIDS in Zambia are, she points out, untrained. They need all the help they can get. The National AIDS Council's meetings are not much good, though; they are “just for people who want to get together”.

Not far off, at Lundazi's Thandizani centre, which offers AIDS tests, advice and education, the complaint is of too many meetings. Since the centre is seen as one of the country's best, the staff are asked to run six or seven workshops a month for other groups. Sometimes they feel like saying, “No more, we have work to do.”

Late in the evening in Lusaka, Dr Rosemary Musonda, an immunologist who is the acting head of the National AIDS Council, is still at her desk. She speaks movingly of the devastation caused by the disease in Zambia. Five members of her family are HIV-positive; her aunt has lost all her children to AIDS; and she is supporting six others affected by it. Every family in the country has a similar story: at least 1m Zambians, maybe 1.7m, are infected with HIV (out of a population of 10.5m), and 10-20% have full-blown AIDS. Only some 23,000 are receiving the anti-retroviral drugs that can allow people to live full and productive lives for years.

Out in Lundazi, Mrs Nyirenda says that she and others grappling with AIDS are meant to get money from the Global Fund and other international sources, but “it never comes.” The people who need anti-retrovirals cannot afford them: they are expected to pay 40,000 kwacha (roughly $8) for a month's supply, but many in the surrounding villages cannot even raise the money for the bus fare to Lundazi. With her efforts to help, says Mrs Nyirenda, “we are creating false hopes.”

Back in Lusaka, Sangayakula Sanga, Sister Marie Crucis and their colleagues are fulfilling hopes. There, in the slum of Kalingalinga, they have created an AIDS clinic that would be a model anywhere. Mr Sanga, a Roman Catholic businessman who became fed up with the poor treatment available to Zambians, is determined to show that it is possible to provide high-quality care in Africa. Our Lady's Hospice opened in 2003. In spotless surroundings, it carries out HIV tests, treats about 1,000 patients with anti-retrovirals, trains 70 assistants a month and sends a mobile hospice out to help those who look after AIDS sufferers at home. What it lacks most is money for medicines to treat the opportunistic infections to which many HIV patients fall prey. But it manages to give cancer care—Zambia has no cancer institution—and it provides spiritual help.

Mr Sanga insists that every penny the hospice receives is properly accounted for. He is not a fan of the government. “Stop all donor aid to governments,” he says, “and give it to faith-based organisations,” adding that “60-70% of donor funding goes to seminars.” Though the hospice is just a few kilometres from the offices of the National AIDS Council, it has yet to receive a visit from any of its officials.

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Hamilton Naki

Apartheid's shadow

Jul 14th 2005
From The Economist print edition

How an inspiring life became distorted by politics

AP

Not quite what he seemed

ON JUNE 11th this year, *The Economist* published an obituary of Hamilton Naki, a black medical researcher at the University of Cape Town. In that obituary, we described Mr Naki assisting in the first human heart transplant by removing the heart from the donor, Denise Darvall. Our account was drawn directly from Mr Naki's own words in interviews.

We have since been assured by surgeons at Groote Schuur, the hospital where the transplant was performed, that Mr Naki was nowhere near the operating theatre. As a black, and as a person with no formal medical qualifications, he was not allowed to be. The surgeons who removed the donor's heart were Marius Barnard, Christiaan Barnard's brother, and Terry O'Donovan. A source close to Mr Naki once asked him where he was when he first heard about the transplant. He replied that he had heard of it on the radio. Later, he apparently changed his story.

He changed it, it seems, not simply because of the confusion of old age, but because of pressure from those around him. Mr Naki was already a hero, as a man of scant education who had trained himself to carry out extremely difficult transplants on animals. He was also a martyr to apartheid: a man debarred from the proper exercise of his skills, and even from fair pay, by an iniquitous regime. (Christiaan Barnard admitted that, “given the opportunity”, Mr Naki would have been “a better surgeon than me”.) For both reasons, his role was gradually embellished in post-apartheid, black-ruled South Africa. By the end, he himself came to believe it.

The process was assisted by hints from Barnard that Mr Naki had helped him in ways that were not fully known, and by the fact that, under apartheid, any such help on white human subjects would have had to be secret anyway. In the end, a story took shape that looked so plausible to the outside world that not only ourselves, but the *Lancet*, the *British Medical Journal* and many others accepted it. Yet the same story appeared so ridiculous to the University of Cape Town, staff say, that they did not trouble to deny it.

To report this misapprehension is doubly sad, apart from our own regret at being caught up in it. It is sad that the shadow of apartheid is still so long in South Africa that blacks and whites can tell the same narrative in quite different ways, each suspecting the motives of the other. And it is especially tragic that it should have involved Mr Naki, a man considered “wonderful” by both sides, black and white, and

whose life should still be seen as an inspiration.

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Japan's economy

More mountains to climb

Jul 14th 2005 | TOKYO
From The Economist print edition

After privatising the post office and its related bank, which reforms should Japan attempt next?

THE vote looms so large that it is hard to see beyond it. By mid-August, Japan's upper house must decide whether to privatise Japan Post, which, along with delivering letters, oversees ¥331 trillion ($3 trillion) in savings and life insurance accounts. Junichiro Koizumi, the prime minister, has threatened a snap election if the reform bills—which cleared parliament's lower house by only five votes earlier this month—fail in the upper chamber. Chaos could follow for his party. So onlookers expect Mr Koizumi to get his way, though a close vote is predicted. Having championed postal reform for decades, he will no doubt celebrate if he does reach the summit. On the other side of the mountain, however, lies an intimidating range of other reforms that still need tackling.

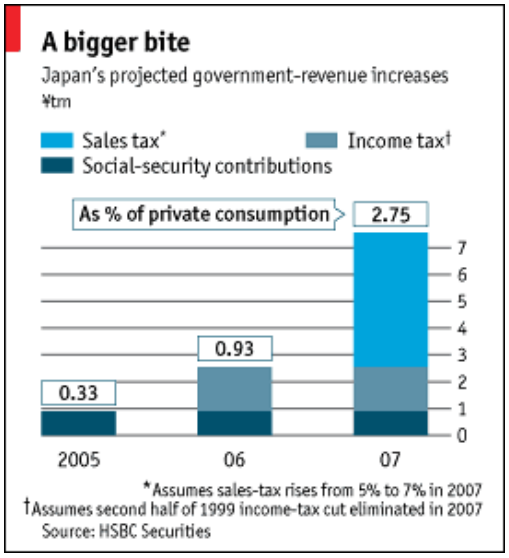
Some involve the budget. After 15 years of economic torpor, Japan's gross public debts exceed 150% of GDP. Now that the economy is on a slightly better footing, and the risk of a bank-driven downward spiral has fallen sharply, the government is keen to start tackling that debt. If it wants growth to take hold, however, Japan must do more than just fix its finances. It must also deal with all of the barriers that still impede competition and make it hard for dynamic firms to expand.

Start with those finances. Mr Koizumi has already trimmed spending on public works, a notorious source of largesse for the ruling Liberal Democrats (LDP) and their allies in the construction industry. He has also taken some first steps towards boosting tax revenues. In 2006, income-tax cuts that were enacted in 1999 will be rolled back by half; the other half will probably be eliminated in 2007.

Mr Koizumi has also begun dealing with pensions. A law passed last year will steadily raise national pension-fund premiums (which are split between workers and their employers), from 13.58% of pay then to 18.3% in 2017. The government has also indexed pensions payouts to a pair of crucial demographic factors: life expectancy and growth of the workforce. So seniors' pensions will fall a bit if people live longer than expected, or if there are fewer workers to support them, cushioning the effect on public finances.

Two looming budget issues remain, however. One is sales taxes. Mr Koizumi has said these will not increase on his watch. But LDP term limits require him to step down by September 2006, and the finance ministry is itching to raise taxes soon after he is gone. The worry is that this may clobber consumption before economic expansion is assured—a hard risk to ignore, since the government made

just this mistake in 1997. The expected pension premium hikes and tax rollbacks will increase taxes by an amount equivalent to nearly 1% of consumption in 2007 (see chart). The burden of new taxes will soar much higher if sales taxes are raised sharply. Yet most analysts expect consumption taxes to rise in 2007 or 2008, from a rate of 5% now to perhaps 7%.



Health-insurance reform will probably prove even more contentious. Because citizens must choose between the national system and private health insurance, the current arrangement discourages people from insuring themselves, thereby limiting market forces, stifling innovation and reducing choice. Some reformists argue that a mixed approach—which gave people an option to supplement government-funded care with private insurance—would inject more competition and modern methods into Japanese medicine, without straining government spending.

Whatever solution it chooses, the LDP will almost certainly be forced to address health care over the next couple of years, whether under Mr Koizumi or his successor. The LDP's coalition partner, New Komeito, is keen on health reform, and its support remains crucial to the LDP's chances in the next general election, due by 2007. If the LDP fails to tackle this issue, it risks driving New Komeito straight into the arms of the opposition.

Medicine is not the only area in which Japan's government distorts competition. Besides Japan Post's savings and insurance arms, for example, there are nine other big financial outfits in the public sector. These lend to a host of borrowers that the market shuns but politicians deem worthy, from farmers, to small firms, to projects in the southern prefecture of Okinawa. Mr Koizumi has reined in one of these, which handles housing loans, but the other eight are still badly in need of reform.

Heizo Takenaka, the cabinet minister who has co-ordinated most of Mr Koizumi's economic reforms, also wants to trim the state by subjecting more government projects to a “market test”. Private firms will soon be allowed to bid for a chance to take over some government services, he says. This will not work, however, unless bidders have lots of information about government; so the prime minister's office must show civil servants that it is willing to crack the whip.

That is a big agenda to be getting on with. And it does not include a host of other needed measures to boost competition, such as: detecting and punishing collusion, preventing former civil servants from abusing their public ties when they retire, encouraging foreign investment and promoting economic diversity in Japan's regions. Mr Koizumi will hardly be able to make a dent on these while in office. Before he can even begin, though, he needs to win that upper-house vote.

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Dealing with North Korea

The truant's return

Jul 14th 2005
From The Economist print edition

And then what?

Reuters

What's on Mr Kim's table?

OPTIMISM is not a feeling that often overwhelms those dealing with North Korea. Yet this week America's secretary of state, Condoleezza Rice, expressed a measured amount of it after the North had agreed to end a 13-month boycott and resume six-way talks on its nuclear programmes sometime in the week of July 25th in Beijing. After its chief negotiator met with his American counterpart last weekend, North Korea said it would "do its utmost", no doubt encouraged by a South Korean promise of 500,000 tonnes of food aid and future energy supplies, to make the talks succeed.

Officially the aim of the negotiations, which also include South Korea, Japan, China and Russia, is to rid the Korean peninsula of nuclear weapons. Ms Rice called on North Korea again this week to make the "strategic choice" to dismantle its programmes for the production of plutonium and uranium. Yet North Korea tossed aside an American proposal aimed at just that during abortive talks in June last year. It still denies publicly that it has dabbled with uranium. And it recently insisted that talks should cover regional "disarmament", accusing America of stockpiling nuclear weapons in South Korea (though they were withdrawn over a decade ago).

North Korea, pessimists argue, is just playing for time. Certainly it has played truant from the negotiating table quite skilfully. After Ms Rice counted its regime among the "outposts of tyranny", five months ago it said it would never return to talks, and would go on strengthening its nuclear deterrent. There were hints that it might test one of its claimed bombs.

That, said both China and South Korea, until then the two least enthusiastic about turning the economic screws, would be a provocation too far. The North backed off, and China's diplomats have been scurrying about to get talks restarted. Last month, South Korea privately presented North Korea's boss, Kim Jong Il, with its new proposal: large dollops of food aid and, once the North dismantles its nuclear capability, some 2,000MW of electric power a year supplied from the South.

In South Korea there is enthusiastic talk of a "Marshall Plan" for North Korea. Its latest offer appears to have broken the diplomatic logjam, at least for now. Mr Kim had earlier on wanted America to provide new incentives for resuming the talks—something it refuses to do. His officials are now promising a proposal of their own when talks resume.

Even with the best will to make progress—and no one is yet accusing anyone of that—hammering out the detailed sequencing of a deal, and working out how to verify that North Korea was indeed disarming, would be difficult. For the next round of talks to be a success, argues Mitchell Reiss, a former head of policy planning in the Bush State Department and now at William and Mary College, there needs to be a practical commitment to sustain the dialogue through working groups that could quietly disentangle these issues.

Meanwhile, the resumption of talks is a vindication of the six-party framework. It took co-ordinated diplomacy to get North Korea back to the table, and to get America to tone down its rhetoric. Bilateral talks, a once hostile North Korea now agrees, will take place within this framework.

But the world's patience could soon wear thin. North Korea says it has resumed work on two partially-built nuclear reactors that would eventually provide lots more plutonium; it has also reportedly

stepped up co-operation with Iran, itself under a nuclear cloud. Without real progress soon, America has hinted it will go for a “martial” plan of its own: starting by stepping up efforts to halt North Korea's shipments of illicit cargoes, and targeting companies wherever they are that may be helping its proliferation trade.

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South Korea

The soldier's tale

Jul 14th 2005 | SEOUL
From The Economist print edition

Abuse in the South Korean army

A STANDING black joke among South Korea's 650,000-plus conscripts has it that, in the event of a conflict with the communist North, Southern soldiers would first aim their rifles not at the enemy but at the heads of those leading the charge on their own side. The reason: the grisly record of bullying and the abysmal living conditions long endured by South Korea's conscripts. The government is considering reforms to boost military efficiency and strengthen the country's defences, but a series of incidents has illustrated the need for equal attention to life in the barracks. In the worst, a young private, reportedly acting out of revenge for prolonged abuse at the hands of superiors, recently killed eight fellow soldiers in the fortified area separating the two Koreas.

The government has proposed a flurry of reforms, including raising the meagre allowance for soldiers and renovating living quarters. The problems of bullying and harassment will be more difficult to root out. The issue emerges periodically, with abuse identified as one of the major factors behind the deaths of over 60 soldiers who committed suicide last year. There was a public outcry earlier this year after it was revealed that a group of soldiers was forced to eat human excrement as a punishment for dirty latrines. The defence ministry suffered a further blow after photographs appeared on the internet which showed marines, stripped naked, being tormented by superior officers.

Most South Korean men spend two years in the army. Supporters of conscription say a stint in uniform instils discipline and a sense of social cohesion. However, most young men, forced to give up two years of their lives, simply view it at best as a necessary evil. There have long been suspicions that the sons of the rich and influential have been able to buy or negotiate their way out of military service. The most recent ploy involved hundreds of young men with dual citizenship giving up their Korean nationality to avoid conscription, before new legislation closed this loophole.

Explanations for the extent of military abuse range from Confucianism to South Korea's recent authoritarian past. But whatever the cause, young South Koreans and their parents have grown extremely wary of military service, and increasingly willing to complain.

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The Philippines

Hanging on

Jul 14th 2005
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President Arroyo toughs it out

AFP

Gloria can stay—for now

BY THE tumultuous standards of the past few months, it has been a good week for Gloria Macapagal Arroyo, the embattled president of the Philippines. True, half her cabinet called on her to resign over allegations that she had rigged her election victory last year. But the country's Catholic bishops, a more influential force, did not. True, plans to impeach her when Congress begins its next session on July 25th appear to be gathering pace. But for the time being, at least, the president still seems to command the allegiance of a majority of lawmakers, rendering her dismissal by Congress unlikely. Events are moving ever faster and more unpredictably, but Mrs Arroyo is far from finished.

Several opposition parties called for a huge rally in Manila's main business district on July 13th to demand the president's resignation. But in the end, only about 30,000 people turned out—many more than at previous protests, but far short of the hundreds of thousands who demonstrated against two previous presidents, during the Philippines' earlier “people power” revolutions.

The demonstration was relatively small in part because the president's most respected critics have rejected calls for another popular uprising. The former cabinet ministers called on her to resign precisely in order to avoid yet another chaotic transfer of power. But another former president, Fidel Ramos, insists that Mrs Arroyo must remain in office at least long enough to usher in constitutional changes to make the Philippines more governable. Mrs Arroyo, for her part, has backed that idea. She argues that, were she to resign now, she would simply be encouraging Filipinos' unfortunate habit of settling their political grievances on the streets, rather than in courtrooms or polling stations. So when the mighty Catholic Bishops' Conference of the Philippines issued a statement over the weekend saying, “We do not demand her resignation,” the movement to shame the president into quitting lost most of its momentum.

The bishops did add, however, that efforts to investigate the president's alleged wrongdoings, including the motion to impeach her that has been lodged with the House of Representatives, “are not against the Gospel.” The speaker of the House, Jose de Venecia, has promised to take up the impeachment motion as soon as Congress resumes work. Opposition lawmakers have agreed to support it, although they fear that Mr de Venecia, an ally of Mrs Arroyo, is setting a trap for them.

There are certainly many ways the impeachment bid could founder. Its first stop would be the Justice Committee, where it could get mired in all sorts of procedural issues, including the admissibility of the main evidence against Mrs Arroyo: purported recordings of her telephone conversations, made without her knowledge or consent. If the committee approved the motion, the House as a whole would consider it, with more lengthy debates inevitable. Only a third of representatives need to vote for impeachment for Mrs Arroyo to be sent for trial before the Senate; but Mrs Arroyo's politicking skills are legendary.

A trial in the Senate, if it came to that, would involve even more horse-trading. During the impeachment of Joseph Estrada, Mrs Arroyo's predecessor, his allies succeeded in suppressing critical evidence, causing the trial to collapse in rancour. In theory, Mrs Arroyo's allies have a comfortable majority in the 23-strong chamber, although three at least appear to have turned against her.

Indeed, the unpredictable congressmen might also scotch any attempt at charter change, or cha-cha, the local term for constitutional reform. The plan to scrap the Philippines' American-style presidential system, and replace it with a parliamentary one, could provide Mrs Arroyo with a face-saving exit. But it might just as easily serve as a distraction from the effort to unseat her. Says one indignant senator: “First, we change our presidents the way we change our underwear, and then we change our constitution the way we change our hairdos.”

Meanwhile, the ratings agencies, citing political uncertainty, have given warning of a possible downgrade of the Philippines' bonds (see article). Mrs Arroyo has begun appointing a new cabinet, starting with a decent new secretary of finance. Filipinos are preparing for a long drawn-out political feud. Business as usual, in other words.

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Kirgizstan

Just like the old days?

Jul 14th 2005 | BISHKEK
From The Economist print edition

Now President Bakiev has to govern

AFP

Bakiev gets down to business

ALMOST four months after Kirgizstan's “tulip revolution”, which led to the overthrow of the government of Askar Akaev, the interim leader, Kurmanbek Bakiev, won a landslide victory in the country's presidential elections on July 10th. Although he received what at first glance looks like a Soviet-style 89% of the votes in a field of six candidates, the Organisation for Security and Co-operation in Europe gave a positive assessment and declared that the vote had made “tangible progress” towards meeting OSCE and international standards for democratic elections. Mr Bakiev had teamed up with his most serious rival for the presidency, Felix Kulov, by promising him the position of prime minister, and thus secured victory.

But now that his position has been legitimised, the real problems begin. Analysts say that Mr Bakiev has only a few months, until winter, at most, to address enormous political and economic challenges, or the unrest may start again. After all, they note, it took only a few thousand people to storm the Kirgiz White House and chase out the previous leadership.

People's foremost concerns are poverty, high unemployment and corruption, which increased exponentially during the last years of Mr Akaev's 15-year rule and impeded the development of even the smallest businesses. At least 500,000 people out of a population of just over 5m have had to seek work in Russia or in neighbouring Kazakhstan.

Surprisingly, though, the macro-economy has done quite well over the past few years, with real GDP growing at 7.1% in 2004 and a stable exchange rate, according to the International Monetary Fund. Kirgizstan's external debt was reduced from 130% of GDP in 2000 to around 85% today, with the remainder likely to be paid off in the next five years, says Michael Mered, the IMF's representative in Kirgizstan.

Although the March revolution has affected production, GDP still grew by 2.4% during the first half of this year. Even so, good monetary or fiscal policy is not enough. “If you don't clean up corruption, the benefits to the people are going to continue to be limited,” says Mr Mered. The potential dangers of such unequally distributed benefits were dramatically illustrated in mid-June, when a wealthy, disqualified and therefore disgruntled presidential candidate organised an unsuccessful attempt to take over the seat of government, by paying a few dollars each to hundreds of poor people.

Mr Bakiev, of course, has vowed to create jobs and to eliminate corruption. But how he plans to do this is not clear; different people in his interim government have said different things. The same ambivalence marks his policy on the pressing question of what to do with the hundreds of Uzbek refugees who fled to Kirgizstan in May after the Andijan massacre, where Uzbek authorities shot and killed hundreds of demonstrators. The foreign ministry has said that international conventions will be observed; the acting procurator-general has said otherwise. Four asylum seekers have already been deported. The result has been to make the new president look indecisive.

Mr Bakiev's views have been slightly clearer on the presence of the American military base in Kirgizstan, set up in 2001 to support American-led coalition forces in Afghanistan; the American arrangements, he says, now ought to be reviewed. He has also pledged to reduce the extensive powers of the president, seen as the root of Kirgizstan's corruption, by shifting some functions to the prime minister. “The record

is already mixed," says Michael Hall of Crisis Group, a Brussels-based think-tank, "but there is goodwill and a desire to trust him." Quite how long Mr Bakiev's political honeymoon lasts, though, is another question.

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Indian retail reform

Wal-Mart still waits

Jul 14th 2005 | DELHI
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India's leftists are blocking reform

WHEN John Walton, an heir to the Wal-Mart retail family's fortune, was killed in a plane crash last month, the story was reported in many Indian newspapers, along with details of his life. India's somewhat insular press does not usually dwell in much detail on any but the most important foreign news; but attention these days is focused sharply on Wal-Mart, thanks to its well-publicised efforts to break into India's retail sector, long closed to outsiders.

To support their case, Wal-Mart and other foreign companies have been spreading the news that they are increasingly using India as a significant source of supplies—Wal-Mart is buying goods worth approaching $1.5 billion from India this year. The amount is small compared with what it spends in China, but it is a start. This has also had the effect of alerting Indian retail and consumer-goods companies to the threat posed by foreign competition. An influential voice from the business community has been added to more traditional opposition from small traders and leftist politicians to foreign direct investment (FDI) in the retail sector.

The result is that the Indian government has been unable to meet a target, set some months ago, of opening the FDI doors to Wal-Mart and others before Manmohan Singh, the prime minister, starts a three-day visit to America this weekend. Mr Singh has also been prevented by a group of leftist parties, led by Communists, from announcing the sale of 10% of the government's controlling stake in BHEL, a large and profitable public-sector electrical company.

Two weeks ago the leftist parties, which support India's Congress-led coalition government from the outside, withdrew from a co-ordination committee over the asset-sale issue. The left is adamantly opposed to selling even small stakes in profitable public-sector businesses and decided to take a stand on BHEL, even though this is damaging to the coalition. A compromise is now being discussed that might lead later to the left allowing the BHEL sale to go ahead as a one-off exception, providing the finance ministry then finds other ways of covering its budgetary needs.

Mr Singh is thus forced to visit America without a handy batch of liberalisation achievements to boast of, which he could have used to fend off inevitable criticism that India's market remains far too closed to American companies.

But the America-India relationship has developed fast in the past few years and Mr Singh must hope that these policy setbacks will not upset plans for the visit, the culmination of months of preparatory work. Among the initiatives that are expected is one for the space industry, where American regulations are hampering international co-operation by India's space agency. What India really wants, though, is to be allowed to acquire nuclear-power technology—which may prove tricky. America's involvement in the next phase of India's agricultural development (it helped to finance agricultural universities in the 1950s) is to be boosted, and there is also to be a new joint business forum. This will, at any rate, give America's top executives a chance to quiz Mr Singh on his recent lack of success at liberalisation.

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India and Britain

The jewel and the crown

Jul 14th 2005 | DELHI
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India is now confident enough to praise both Pakistan and Britain

IT IS risky for politicians to re-examine sensitive points in a country's history, as Lal Krishna Advani, leader of India's Bharatiya Janata Party (BJP), has found. Visiting Pakistan last month, he upset his party's Hindu nationalists by praising Pakistan's founder, Mohammed Ali Jinnah, who split the subcontinent in 1947. Mr Advani looked likely to lose his job as BJP president in the continuing row, until his colleagues decided this week to rally round him. Now Manmohan Singh, India's prime minister, has started another, potentially risky, debate by praising Britain, India's colonial ruler—even though, he pointed out, India's share of world income dropped from 22.6% in 1700, roughly when the British arrived, to 3.8% just after independence.

Speaking on July 8th after receiving an honorary degree at Oxford University, Mr Singh said that Britain's "beneficial consequences" included India's notions of the rule of law, a constitutional government, a free press, a professional civil service and the English language, which has been Indianised into the country's own language. These legacies of the Raj, Mr Singh noted, had "served the country well".

The timing of the two speeches is, of course, a coincidence—Mr Singh started his preparations six months ago when he accepted Oxford's invitation. But both reflect India's growing self-confidence, as well as a sense that it is time to move on. Mr Singh has been attacked from both political wings for belittling India's old freedom fighters and for ignoring, as a BJP spokesman put it, Britain's "atrocities and barbarism". But Delhi's *Pioneer* newspaper, usually a staunch BJP supporter, declared it as "an acknowledged fact of history" that the British were "the best colonial rulers in the world". The debate continues.

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Afghanistan

After victory, defeat

Jul 14th 2005
From The Economist print edition

Nature takes a malign hand

A LOT of bad luck and a fair amount of bad management have combined to take the gloss off this year's onslaught on the Afghan drug trade, conducted at a cost of close to $1 billion. After earlier predictions of a drop in the opium harvest of up to 40%, recent weeks have seen ministers and American officials preparing the ground for much less impressive gains.

Much of the blame this year falls on the fickle hand of nature, and rains not seen for a generation in Afghanistan. The result is an opium crop that has, according to UN officials, produced a vastly better yield per hectare than last year. President Hamid Karzai's hopes have been washed away in the subsequent deluge.

Understandably, Afghan officials are keen to play up the positives. They point to progress in institution building, such as a new Anti-Narcotics Ministry, and a drop in the area of poppy cultivation. Last year cultivation totalled a record 131,000 hectares. In March a rapid assessment by the UN reported a decrease in all but eight of Afghanistan's 34 provinces, though it did not indicate the levels of reduction.

But will these gains prove sustainable? Many farmers took little persuasion to abandon poppy after last year's poor return; the more so when government officials made often hyperbolic promises of western financial aid. The value of the opium crop at “farm-gate” prices was $600m last year. The amount of money earmarked for alternative livelihoods this year has been just $380m.

Western officials agree that alternative livelihood schemes must be focused on creating sustainable agricultural infrastructure, a goal that might take a decade or more of continuous investment. Schemes offering “cash for work” to keep farmers from poppy growth in the short term have been set up in some key drug-producing provinces. But ominously, one of the most successful of these, run by a company called Chemonics in Helmand province, was targeted by gunmen in May. Eleven people were killed, and Chemonics has suspended its work, which had employed 14,000 people.

While the carrot of prevention through alternative livelihoods has had some success, the stick of eradication has been at times shambolic. The Central Poppy Eradication Force (CPEF) was the international community's solution to last year's eradication farce, when provincial governors were given money to fund eradication and in many cases simply pocketed the cash. It has ended up costing at least

$100,000 for every hectare it has destroyed.

Efforts to disrupt the smuggling chain have gone better. Various western-trained interdiction forces have stopped several hundred tonnes since the start of 2004. This is dwarfed by the 4,200 tonnes harvested last year, but is beginning to erode the smugglers' sense of impunity.

Much expectation now focuses on progress in establishing a judiciary capable of jailing the drug-traffickers. The screening and training of judges, prosecutors and investigators is finished and secure courts are near completion. The first arrests are imminent. The courts' success or otherwise will be crucial. Narco-corruption reaches to cabinet level and most provincial governors and police chiefs are known to be directly or indirectly involved.

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Degrees of separation

Jul 14th 2005
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AP

America is an extraordinarily dynamic country, says John Parker. But its very mobility may now be drawing people apart

HAU THAI-TANG saw his first Ford Mustang in the streets of Saigon when he was a child during the Vietnam war. The sports car, he says, “reinforced all those positive images of America. It was big, it was powerful and it really stood for freedom.” Thirty years later, Mr Thai-Tang, who migrated to New York in 1975, is in charge of designing the 2005 version of America's iconic speedster.

That story encapsulates the American Dream: starting from nothing and making it to the top. The idea of freedom has lost none of its appeal. President Bush devoted his second inaugural address to the theme of America as the embodiment of liberty. Yet the sceptical foreign reaction to his address suggested that America itself—what it is and what it stands for—has become increasingly controversial. A recent international survey by the Pew Research Centre found that, two years after the Iraq war, anti-Americanism was becoming entrenched and that foreigners no longer saw America as a land of opportunity the way they once did.

Doubts about what America stands for are growing inside the country, too. America has always seen itself, and has been seen, as the land of progress, pushing back the frontiers of knowledge. Yet four years ago Mr Bush confined stem-cell research to existing stem-cell lines, and this summer, when Congress voted to relax his guidelines, Mr Bush threatened to veto the bill. If he carries out his threat, it will be the first veto of his presidency.

This is a small example of a broader trend. Some Americans believe that their country is falling behind in the technological race, and will inevitably be overtaken by China and India. Others seem to be fighting the very idea of progress. American conservatives, says Anatole Lieven, of the Carnegie Endowment, a Washington think-tank, are backward-looking, nostalgic for a supposedly golden age in the 1950s; they are defensive, believing that the government and courts are prejudiced against Christianity; and they are driven by grievances over cultural reverses (abortion), sexual mores (gay marriage) and military defeat (Vietnam).

Obviously not all conservatives feel so gloomy. Before a cheering Republican convention last year, Arnold Schwarzenegger, the governor of California, told fellow immigrants that “we [Republicans] believe in your future.” But there are enough backward-looking ones to cast doubt on whether America still is the open, optimistic country of yore.

Perpetuum mobile

Most accounts of America's arguments about itself concentrate on divisions within the country: red v blue states, religious v secular voters, the 50-50 nation. This survey takes a different route. It looks at things that Americans have always had in common: mobility (the willingness to up sticks and move); immigration; equality of opportunity; and a love of clubs and voluntary associations ("nothing, in my view, deserves more attention," wrote Alexis de Tocqueville).

Ideally, all these things work together to create an open, forward-looking society. The restless and ambitious move to the frontier, setting up new industries and opening up new avenues to wealth. More opportunities attract more people, and greater equality of opportunity adds to the supply of wealth-seekers, so social and geographic mobility reinforce one another. A dynamic country attracts immigrants who refresh its stock of ambition. Voluntary associations flourish in the midst of all this activity, making for a stable as well as a dynamic country.

Yet this survey will argue that the cycle no longer works as it did. Some component parts —notably geographical mobility and immigration—continue to whirr merrily. Voluntary associations are reviving, though only after a long period of decline. But disturbingly, there are signs that social mobility is dwindling. The political system, for its part, is adding to social rigidities instead of counteracting them.

The problem is not that America has become less dynamic. Its society continues to grow and change as fast as ever. But traditionally the country has been seen as a melting pot, which after much stirring produces greater integration. Now some of that activity may be causing separation. Has America become a centrifuge?

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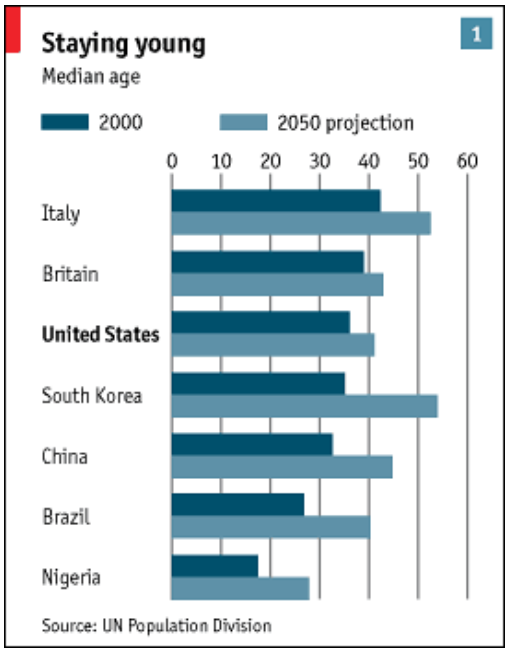
Centrifugal forces

Jul 14th 2005
From The Economist print edition

Americans are still restless in the midst of plenty



"IN THE second century of the Christian era," Edward Gibbon began his "Decline and Fall of the Roman Empire", "the empire of Rome comprehended the fairest part of the earth and the most civilised portion of mankind." America could lay claim to a modern equivalent. At the start of the 21st century, the empire of the United States has created the most open and dynamic society in the world.

One indicator of social dynamism is population growth. In the 20th century, America's population increased by 250%, whereas France's and Britain's rose by less than 60%. In the past ten years, the number of Americans has risen from 263m to almost 300m, the fastest growth for 40 years. America's population is rising more than twice as fast as the European Union's, and two-thirds of that growth comes from natural increase, whereas almost all the modest rise in the EU's population recently has come from immigration.

America's population is dynamic in comparison not only with Europe but also with some of the fastest-growing developing countries. Its fertility rate is higher not only than China's (because of that country's one-child policy), but Brazil's and South Korea's too. By 2050, America's median age (the point at which half the population is older, half younger) will be less than six years higher than its 2000 level of 35 (see chart 1). China will have aged by 15 years to about 45, and South Korea by a withering 22 years, to 54.

America is the only country to have maintained industrial-era patterns of demographic growth in a post-industrial age. Except for the Arab world and a handful of middle-income Latin American countries, all the countries with fertility rates higher than America's are very poor. If a willingness to reproduce is a measure of a rich country's confidence in the future, then America is supremely self-confident.

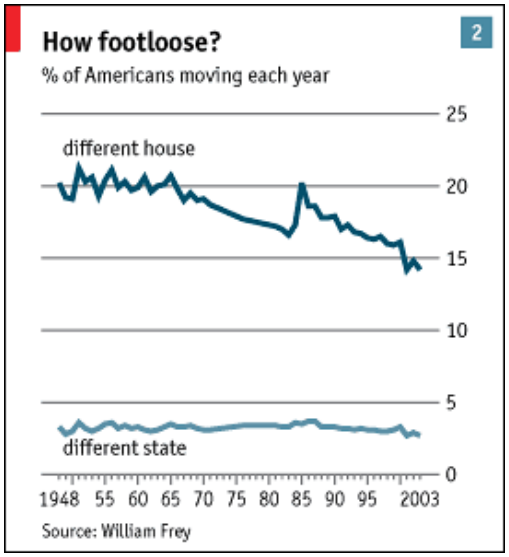
That trait seems to be hard-wired into the American character. "The greatest asset of the American, so often ridiculed by Europeans, is his belief in progress," wrote a Swede, Victor Vinde, in 1945. Today, two-thirds of Americans think they will achieve the American Dream of self-improvement at some point

in their lifetime. This year, Americans will spend almost $700m on self-help books. “The Purpose-Driven Life”, a 40-day religious course of self-improvement, has sold 25m copies, more than any other non-fiction book except the Bible.

Americans work harder than almost anyone else—300 hours a year more than Europeans. They switch jobs more often—about once every seven years, compared with once every 11 years in Germany and Japan. Except in traffic, the country has developed a cult of speed—fast food, fast banking (“It's your money,” runs one financial advertisement, “get to it faster”), fast everything. Many of the country's founding myths are variations on the Odyssey—wagon trails to the west, the Lewis and Clark expedition, Huckleberry Finn.

America's unemployment rate, at around 5%, is roughly half that in Germany, France and Italy. Its rate of home ownership has risen to almost 70%, higher than ever before. By encouraging flexible labour markets and deep mortgage markets, America has reinforced the cycle of population growth, economic success and demographic dynamism.

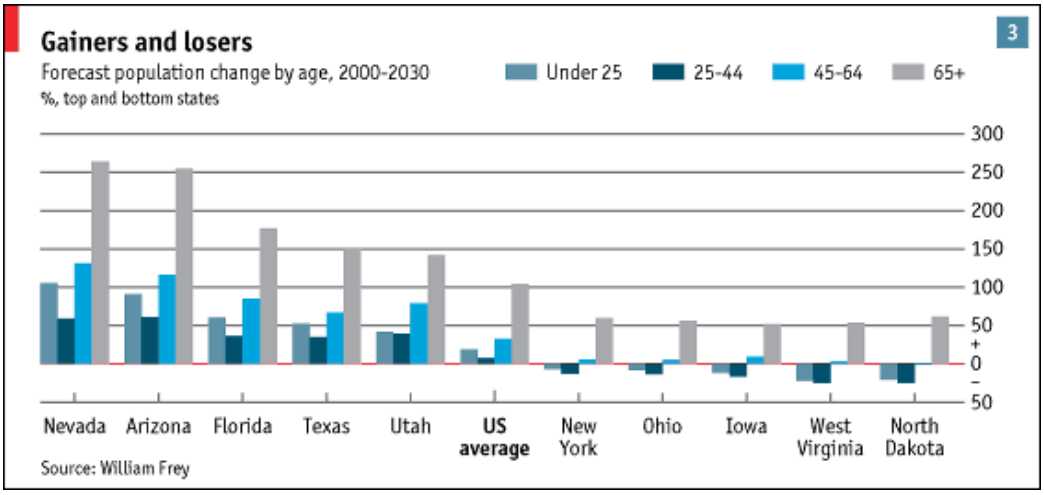
A dynamic society also means an open one: open to trade and immigration. National-security hawks dream about limiting such openness, and during the 2004 election campaign America briefly agonised about outsourcing. But by any normal measure, the country remains extraordinarily open. Trade barriers are low. Since 1990 exports and imports have risen as a share of GDP, and over the same period nearly 14m new immigrants have entered America legally. Not all the effects of this openness are beneficial, but America's ability to absorb newcomers has been the envy of other countries.



A dynamic American society has always meant a well-educated and technologically advanced one. True, there are deep-seated problems in secondary education: in an international study, American 10-year-olds came 12th out of 25 countries in mathematics and sixth in science. But the quality and quantity of intellectual life in America is still the highest in the world. A quarter of American adults have a university education. The country produces one-third of the world's scientific papers, employs two-thirds of the world's Nobel-prize winners, has 17 of the top 20 universities (as ranked by Shanghai's Jiao Tong University) and has more ideas-based workers than anyone else.

A mobile society

Yet what really matters is not just growth per se, but where it happens and what impact it has. The country's size and wealth, combined with its meritocratic traditions and technological prowess, have made it unusually easy for Americans to move around in search of new opportunities. “In the United States,” wrote Alexis de Tocqueville, “a man builds a house in which to spend his old age, and he sells it before the roof is on; he plants a garden and lets it just as the trees are coming into bearing...he embraces a profession and gives it up; he settles a place and soon afterwards leaves to carry his changeable longings elsewhere.” In some ways, this restlessness in the midst of plenty is America's most remarkable feature.



This year, around 40m Americans—one in seven—will move house, the equivalent of the entire population of Spain. Between 1995 and 2000, almost half of all Americans have changed address, more (often far more) than in any European country. With home-ownership rates so high in America, you might have expected less mobility, and indeed it has declined compared with the 1960s, when about a fifth of the population moved every year.

But America is not settling down. On the one hand, the young, restless and rich move around as much as ever; on the other, a stable, older and less well-off America is sitting tight, bringing down average mobility. Different groups live in different areas and different kinds of places, and face diverging futures.

The young move house most often: in 2003, 30% of people in their 20s did, compared with under 5% of the over-60s. Movers also tend to be better educated: almost half of all university graduates moved at some point between 1995 and 2000, and so did a remarkable four-fifths of 25-34-year-old college graduates. According to Bill Frey, a demographer at the University of Michigan, America is producing a footloose generation of the best-educated.

Overall, the most common reason for moving is to get a better house. But for one group of Americans, the main reason for moving is work. The people in this group are also the most likely to move from state to state, not just across the road. For them, there has been no decline in mobility since the 1950s. During the 1990s, 73m Americans—more than two Californias—moved from one state to another.

It seems, then, that a lot of well-educated, risk-taking Americans are moving constantly in search of the Next Big Thing. Richard Slotkin, a historian of the frontier, points out that this has happened before. The west was settled not by a representative sample of the nation, but by particular groups: the young; individual ethnic groups; and children of earlier pioneers. But the west was not just a place, it was also a particular kind of economy, in which those who worked hardest could double or treble their fortunes. The current movement of the educated young is a high-tech version of the frontier spirit.

America is also sorting itself out by place, into fast- and slow-growing cities. The pace of change is extraordinary. In the past 25 years, Las Vegas has increased in population by 250% and Austin by 140%. Twenty-two metropolitan regions, almost all in the sunbelt, have more than doubled in size. These fast-growing places are demographically distinctive. Between now and 2030, America's median age will rise by just over three years, but in Colorado and North Carolina—migration magnets in the sunbelt—the median age will rise by only about one and a half years.

The places (not) to be 4

Migration of college graduates over 25, 1995-2000

Biggest gains		Biggest drains	
Atlanta, GA	76,443	New York-New Jersey-Long Island, NY-NJ-CT-PA	-122,000
Phoenix-Mesa, AZ	63,084	Chicago-Gary-Kenosha, IL-IN-WI	-29,647
Dallas-Fort Worth, TX	54,814	Pittsburgh, PA	-20,065
San Francisco-Oakland-San Jose, CA	48,614	Detroit-Ann Arbor-Flint, MI	-17,244
Denver-Boulder-Greeley, CO	40,793	Buffalo-Niagara Falls, NY	-17,171

Source: William Frey

On the other hand, 30 metropolitan regions have seen their population fall since 1990, many of them in the Ohio valley. In the worst hit, Weirton, a steel town in West Virginia, the population has dropped by over 10%. Pittsburgh and Buffalo suffered population losses of about 3%. And whereas fast-growing states are “younging”, these laggards will see their median age rise fast to 2030.

Just as America is separating by region, so it is dividing up by types of place. The fastest-growing bits of the country over the past five years have been new suburban areas on the far edge of big cities, such as Riverside and San Bernardino Counties in southern California. The big losers from domestic migration were Los Angeles, New York and Chicago, which all saw an outflow of around 400,000 people. Cook County, which contains downtown Chicago, was the second-largest loser of domestic population. Will County, on Chicago's southern outskirts, was the sixth-largest gainer. As ambitious young married couples everywhere flee urban problems of bad schools and snarled traffic, America has become the first society in the world to classify more than half its population as suburban.

But what does all this sorting out add up to? Is it just a zero-sum game in which people shift from one place to another, with some winning and some losing, but leaving the nation as a whole no better off? Does it erode social bonds, leaving America worse off? Or does mobility itself produce benefits that are greater than the sum of their parts?

Moving must be good for the movers themselves, otherwise they would not bother. They are shifting from the downtowns and inner suburbs to new suburbs and exurbs in order to achieve a 21st-century version of the American Dream. Instead of the ranch house, the Chevrolet and the colour television of old, they want—and are getting—a McMansion, a Lexus SUV and high-speed internet access.

Mobility is good for the new suburbs, too. Formerly synonymous with stultifying boredom, conformity and white bread, they have become the most vibrant parts of the American economy. In the 1990s, three-quarters of all new office space was built in suburbs, and job growth there was three times higher than in the downtowns. Suburbia saw the birth and growth of Microsoft, Cisco, Dell and most of America's other high-tech giants.

Those gains might not have been possible but for the way that migration is shifting the best and the brightest to the places where the new jobs are being created. Traditionally, the best-educated areas were in the north-east, especially Boston, where more than one-third of the residents have college degrees. But in 1995-2000, the places that saw the largest absolute increase in the number of people with college degrees were Atlanta, the unofficial capital of the new South, and Phoenix, which 25 years ago was only one generation away from being a cattle town. At least these are diversified economic hubs. But Las Vegas too, home of Liberace and Celine Dion, saw its graduate population rise by over 20% in the late 1990s, proportionately the largest brain gain of any city.

There are also signs that the dynamism of fast-growing areas feeds off itself. Nevada, the state with the largest number of people who have moved from somewhere else (29% in 1995-2000), also has the highest proportion of people moving house (59% in that period). In contrast, Pennsylvania, with almost 80% of residents born in the state, has the second-lowest rate of moving house. If mobility brings benefits, then its self-reinforcing quality produces benefits squared. America is not just mobile. It is a perpetual-motion machine.

The corollary of educational upgrading in new areas is educational loss in old industrial centres. Black inner cities have been especially hard hit by the sudden flight of the best-educated African-Americans, who since desegregation have had a choice about where they lived. Overall, the populations of cities in the north-east declined in the 1990s, whereas in the west they increased by 20%; cities with a lot of manufacturing grew much more slowly than average.

Flavour of the year

The wider worry is that America's great sorting-out could damage the country by producing a stratified land of haves and have-nots, and creating more class divisions (of which more later in this survey). Yet there is also plenty to counter the forces of separation. America's successful areas are not set in stone. In the 1960s, the new frontiers were California, Texas and Florida. In the 1980s and 1990s, they were Nevada, Arizona and Colorado. Now they have shifted yet again. Some of the fastest-growing counties of the past five years have been in the snowbelt: Kendall County, near Chicago; Lincoln County, South Dakota; Delaware County in central Ohio; and Scott County, south of Minneapolis. Within the sunbelt, people are moving from congested coastal hubs to smaller towns in the interior south and west. Miami is

out, Orlando is in. Riverside is taking up where Los Angeles left off.

Nothing exemplifies the diffusion of the haves better than the spread of gated communities. Decried when they first appeared as elitist retreats, gated communities are now spreading to the middle class. According to a census bureau report in 2003, about 7m American households (over 6% of the total) live behind walls and fences, but for new houses in California the proportion is 40%.

Next, there has been a marked increase in ethnic minorities in new suburbs. They now make up more than one-quarter of the suburban population, compared with less than one-fifth in 1990. If you drive around the San Fernando Valley ("The Valley", supposedly the great white sprawl of Los Angeles), you will see Ethiopian, Thai and Korean restaurants, Mexican and Salvadorean grocery stores, Chinese lawyers and an Armenian cultural centre, all in the space of one block. Nationwide, roughly half of all Asians and Latinos and two-fifths of blacks live in suburbs.

Or consider one of the great hidden stories of the past few years: the return of blacks to the South. For decades, southern labourers sought more money and less prejudice in industrial cities. In the late 1960s, black populations dropped most steeply in places such as Birmingham and Mobile in Alabama or New Orleans, Lafayette and Shreveport in Louisiana. Some of the largest gainers were Los Angeles, Detroit, Chicago, San Francisco and New York. Yet in 1995-2000, those were the five cities that lost the largest number of blacks. Conversely, Atlanta gained 114,000 African-Americans, followed by Dallas, Charlotte and Orlando. This is helping to erode racial segregation. An index developed by Edward Glaeser and Jacob Vigdor, two economists, shows that in the medium-sized metro areas of the South, segregation has dropped.

But perhaps the most important factor in making Americans less separate is immigration, the subject of the next article.

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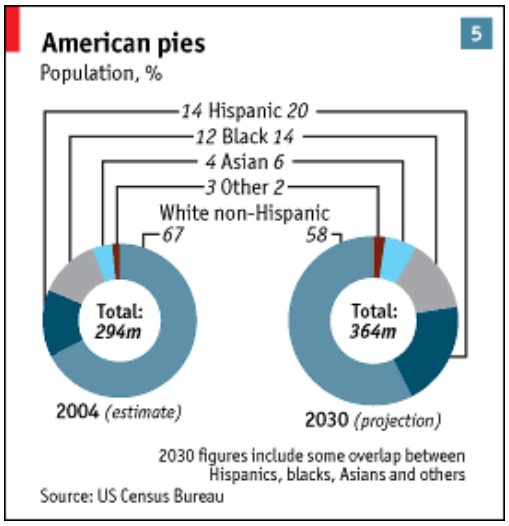
The Americano dream

Jul 14th 2005
From The Economist print edition

If domestic mobility is a centrifuge, immigration is a melting pot



AMERICA is going through one of its periodic bursts of high immigration. According to the Census Bureau, the country is home to about 34m people born abroad, half as many again as ten years ago. It is also going through one of its periodic panics about the subject.

Self-styled “minutemen” search for illegal immigrants on the border between Mexico and Arizona. Hospitals say they are being bankrupted by the cost of treating illegal aliens. The Republican Party is riven between those who want to crack down on illegal immigration and those who want to regularise it.

The critics fear that the Hispanic wave—especially that part rolling in from Mexico, which accounts for about two-thirds of the total—is in danger of creating two nations: the existing one (which Robert Levine, in the *Public Interest* magazine, dubbed the “Anglo-Protestant-African-Catholic-Indian-German-Irish-Jewish-Italian-Slavic-Asian society”), and a Spanish-speaking sub-group. The new wave is unusually big, say the worriers; it is growing unusually fast, is unusually cohesive (everyone speaks Spanish) and, unlike previous waves of immigrants, it is fed by a country next door that is continually refreshing the cultural differences between Hispanic immigrants and the rest of the country. As Samuel Huntington expressed it in his book, “Who are We?”, published last year, “Mexican immigration is leading towards the demographic *reconquista* of areas Americans took from Mexico...it is also blurring the border between Mexico and America, introducing a very different culture.”

If true, this would obviously be a big problem in its own right. It would also reinforce centrifugal trends that are already present in American society. But this section will argue that such fears are much exaggerated. There are problems, to be sure, though these mostly concern America's immigration policy and illegal immigrants. But legal immigrants are neither as numerous nor as culturally different as the pessimists fear. And, far from exacerbating the centrifugal forces in America, immigrants are helping to counteract them.

Some 34m Americans, around 11% of the population, were born abroad. That sounds a lot. But in 1890, a time of mass immigration of Italians, Irish and Jews, that proportion was 15%. At one point, the Irish alone made up 10% of the population.

By far the largest immigrant group now consists of Hispanics. They accounted for around half of America's total population increase between 2000 and 2004, more than in the 1990s. Half the Hispanics are under 27. The Census Bureau forecasts that by 2050 the Hispanic population will have increased by 200%, the population as a whole by 50% and whites by only 30%. At that point, Hispanics will make up just under a quarter of the population, and Mexicans about one-sixth.

That would indeed be a huge share for a single immigrant nation. But by 2050, the descendants of the first Mexican immigrants will be into the fourth or fifth generation. The question is whether by then they will still be a strongly distinctive group. The signs are that, following in the paths of their Irish and Italian predecessors, they will have become assimilated.

Before that, though, stop to consider some of the effects that the immigrants are already having. New arrivals tend to head for New York, Los Angeles, San Francisco, Chicago, Miami and other cities. Over half the immigrants first settle in one of these gateways, and two-thirds of the foreign-born population live in states surrounding them. This is not surprising. The gateways contain networks of people, companies and churches that make newcomers feel at home. The law reinforces this clustering, because family reunification is a common means of legal entry.

AP

Something to celebrate

As it happens, these preferences are extremely fortunate for America as a whole, because the melting pots are precisely the places that domestic migrants have been leaving in droves. Those five traditional entry points, plus Philadelphia, were the half-dozen cities with the largest net losses of white population during the 1990s.

A never-ending supply

As the previous section has pointed out, departing domestic migrants tend to be younger, hard-working families. New immigrants are also typically younger, hard-working people with families. They help to make up for the domestic outflow (the big difference is that they are far less well-educated). In other words, they save America's great cities from ageing rapidly.

But although Hispanic immigrants arrive at the same points of entry as their Irish and Italian predecessors, they soon spread to the rest of the country. Hispanic and Asian families crop up in the most unlikely places: Indian computer programmers in Plano or Austin, Mexican farm workers in the Dakotas, Asian entrepreneurs in Las Vegas.

The cities that have seen the fastest growth in Hispanics lately are not the traditional magnets of Los Angeles and New York, but smaller cities of the New South—places such as Greensboro, Raleigh and Charlotte, North Carolina. In all of those, the Hispanic population rose by around 600% during the 1990s. The top attractions for Asians are no longer San Francisco and Los Angeles but Atlanta and Las Vegas. That is one reason why America's growing towns and new suburbs are more racially integrated than its old cities.

This immigrant diffusion piggybacks on domestic migration and is essential to the boom in America's

fastest-growing areas. Without it, cities that have attracted lots of well-educated domestic migrants would have seized up, becoming top-heavy with university graduates. Arguably, that is happening in San Francisco. But in many boomtowns, Latinos have poured in to take up the basic jobs in construction, food and distribution that cities need to back up their growth. The cities of the inland South and west are wealthy because white Americans are pouring into them. But they keep growing because immigrants are tagging along in the domestic migrants' wake.

This dispersal is allaying the main fear of immigration's critics: that Hispanics will cluster in giant ghettos without interacting with the rest of America. It is true that illegal immigrants are often trapped in a semi-criminalised shadow economy, unable to move up or out. But for the legal sort, the signs of mobility and assimilation are everywhere—not assimilation as in becoming the same as everyone else, but assimilation as in becoming citizens, taking part in politics, enlisting in the army, paying taxes and speaking English.

America seems in no danger of becoming a society divided by language. In 2002, a survey by the Pew Hispanic Centre and the Kaiser Family Foundation found that over 90% of second-generation Hispanics were either bilingual or mainly English-speaking, split equally between the two. In the third generation, more than three-quarters were mainly English-speaking. In the same year, a market-research company, Cultural Access, found that young Latinos watched twice as much English-language as Spanish-language television.

Like their predecessors, Hispanics are busy bettering themselves. First-generation Mexican immmigrant men in their late 40s have had six fewer years of full-time education than their white American-born peers. Their sons are only one year short. That is still regrettable. A mere 10% of Hispanics have university degrees, and the high-school drop-out rate among Hispanic immigrants is worryingly high. Over 40% of 16- to 24-year-old immigrants lack a high-school diploma. But among the children of Hispanic immigrants, the drop-out rate is much lower.

Politically, Hispanics are moving into the mainstream at about the same rate as the Italians or Irish did in the 20th century. This year, Antonio Villaraigosa became mayor of Los Angeles, America's second-largest city, the first Hispanic to hold that job. In 2004, two Hispanics became senators, Mel Martinez in Florida and Ken Salazar in Colorado; 25 congressmen have Hispanic backgrounds. This might be a problem if Hispanic politicians had separatist agendas, such as demanding obligatory Spanish-language teaching in schools. But they do not. Naturally there are specific Hispanic concerns, as there are for all ethnic groups in America (for example, how to deal with illegal immigrants). But Hispanic politics is diverse, and its spectrum is similar to that of the country as a whole. It ranges from the Texan conservatism of the attorney-general, Alberto Gonzales, to the Californian liberalism of Mr Villaraigosa.

Lastly, there is evidence that new immigrants, Hispanics especially, are joining the rest of the American people in the most direct possible way: by marrying them. Almost a third of all marriages involving a Hispanic or Asian partner cross racial lines (counting Hispanics as a race for this purpose). By most standards, American rates of mixed-race marriage have been low: one in 23 marriages in 1990, up to one in 15 in 2000. Latinos seem to be leading the way in breaking down that barrier. Nearly half of all the 3.7m inter-racial marriages in the country have one Hispanic partner. In states with a lot of Hispanic immigration, the rate is surprisingly high: 14% in California and Nevada, around 11% in Washington state, Colorado and Arizona. At this rate, intermarriage will soon stop being exotic and become mainstream. It is another way of stirring the melting pot.

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Middle of the class

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From The Economist print edition

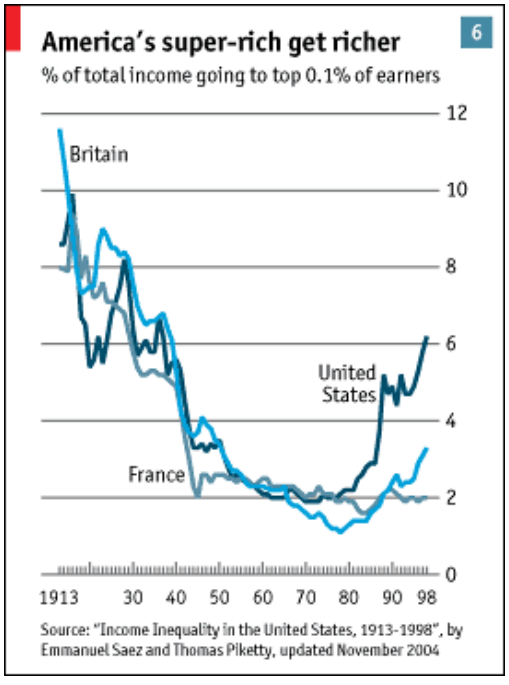
Equality of opportunity is under threat

FOR the past three years, the most successful shows on American television have been “American Idol” and “The Apprentice”. This spring, millions tuned in to watch Carrie Underwood, a 21-year-old country-and-western singer from small-town Oklahoma, win the entertainment contest and to see Bill Rancic, who put himself through university by cleaning boats, land a six-figure salary as Donald Trump's chosen sidekick. The success of these shows in America testifies to the endurance and popularity of the American Dream—the idea that anything is possible if you work at it hard enough.

America's founding document declares all men to be created equal. From Benjamin Franklin, the 15th child of a candlemaker, to Bill Clinton, whose mother was widowed before he was born, the American creed proclaims that the ladder of success can be climbed by all. A decline in social mobility would run counter to Americans' deepest beliefs about their country. Unfortunately, that is what seems to be happening. Class is reappearing in a new form.

For the quarter-century after the second world war, income growth in America was fairly evenly spread. According to a study by the Economic Policy Institute (EPI), the poorest fifth of the population saw its income increase by as much as the next-poorest fifth, and so on in equal steps to the top. But in the past quarter-century, the rich have been doing dramatically better than the less well off. Since 1979, median family incomes have risen by 18% but the incomes of the top 1% have gone up by 200%. In 1970, according to the Census Bureau, the bottom fifth received 5.4% of America's total national income and the richest fifth got 40.9%. Twenty-five years later, the share of the bottom fifth had fallen to 4.4% but that of the top fifth had risen to 46.5%.

A harder climb



This makes America unusual. Thomas Piketty and Emmanuel Saez examined the incomes of the top 0.1% of people in America, France and Britain from 1913 to 1998. The fortunes of the three countries'

super-rich kept fairly closely in step for most of the 20th century, until America began to diverge in the late 1970s. Now the top 0.1% of Americans earn two or three times as much as their peers in Britain and France (see chart 6). If America is a ladder, the rungs have been moved further apart.

Perhaps Americans think the rich deserve their success. They certainly work more than they used to. In the 1970s, the top 10% worked fewer hours than the bottom 10%; now the reverse is true. Back in 1929, 70% of the income of the extremely rich (the top 0.01%) came from capital (dividends, rent and interest). Now, 80% comes from wages and stock options, which is earned income of a sort.

Or perhaps what really matters is how the poor are doing in absolute terms rather than in relation to the wealthy. Americans' average salaries have risen over the past 30 years, though admittedly not by much. A far smaller share of the population lives in poverty now than in the supposedly golden age of equality in the 1950s (12% compared with 22%). Moreover, a surge of immigrants on minimum wages tends to bring down the average: home-grown Americans are probably better off than the figures suggest. The rich have not got richer at the expense of the poor. The rising tide has lifted dinghies as well as yachts.

Anyway, what Americans seem to mind about most is equality of opportunity—and people do not feel there is any less of it now than there used to be. Some 80% (a higher proportion than in the 1980s) think it is possible to start out poor, work hard and become rich. A poll for the *New York Times* found that twice as many Americans reckon that their chances of moving up a notch have improved over the past 30 years than think their chances have gone down. Most Americans say their standard of living is higher than that of their parents, and that their children will do better than they are doing.

So, on the face of it, rising inequality is not affecting the optimism and ambition of average Americans, and these are what matter to the country's entrepreneurial spirit and social cohesion. But there are three big problems with this rosy view. The first is that America has never been as socially mobile as Americans like to believe. According to a long-term research project carried out at the University of Michigan, led by Gary Solon, America's score on social mobility is not particularly high or low, but middling.

That does not sound too bad. But it means that, if you are among the poorest 5% of the population, your chances of achieving an average income are only one in six. If you are among the poorest 1%, they become very dim indeed. Moreover—and this was the most surprising thing about the study—despite America's more flexible labour markets, social mobility there is no longer greater than in supposedly class-ridden Europe, and if anything it seems to be declining.

A study by Katharine Bradbury and Jane Katz for the Federal Reserve Bank of Boston found that in the 1970s, 65% of people changed their social position (that is, moved out of the income bracket in which they had started the decade). In the 1990s, only 60% did. Not a huge change, but consistent with Mr Solon's study showing that the correlation between parents' and children's income is even closer now than it was in the 1980s. The authors also found decreasing amounts of social mobility at the top and the bottom. This is squeezing the middle class. Americans may be sorting themselves into two more stable groups, haves and have-nots. This is the same trend that geographical mobility has been encouraging. Decreasing mobility may one day come to erode Americans' faith in the fairness of their economy.

The second reason for pessimism is that mobility may continue to decline because it is rooted in fundamental changes to the economy. These explain both the big rise in income inequality and the smaller shift in social mobility. Over the past 25 years, globalisation has increased rewards for intellectual skills, pushing up the value of a degree. The income gap between college graduates and those without university degrees doubled between 1979 and 1997.

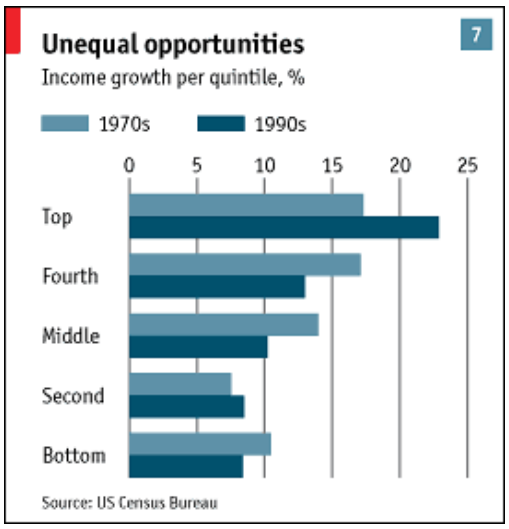
This has gone hand in hand with changes in the nature of work. It used to be possible to start at the bottom of a big firm and work your way up. But America's corporate giants have got rid of their old hierarchies. Lifetime employment is at an end, and managers hop from job to job. That makes a degree essential. In the 1930s and 1940s, only half of all American chief executives had a college degree. Now almost all of them do, and 70% also have a higher degree, such as an MBA. People with a university degree are now more likely to move up an income bracket than those without. This is a big change since the 1970s, when income rises were distributed equally across all educational levels. America is becoming a stratified society based on education: a meritocracy.

But what if education itself becomes stratified? Historically, America's education system has been the main avenue for upward mobility. Mass secondary education supplied the workforce of the world's most successful industrial economy in the late 19th century; mass university education did the same for the period of American economic dominance after the second world war. But now, worries Lawrence

Summers, the president of Harvard University, what had been engines of social mobility risk becoming brakes.

At secondary-school level, American education is financed largely by local property taxes. Naturally, places with big houses paying larger property taxes have schools with more resources. At university level, the rise in the cost of education has taken Ivy League universities out of the reach of most middle-class and poor families. The median income of families with children at Harvard is $150,000. The wealthy have always dominated elite schools, but their representation is rising. Between 1976 and 1995, according to one study, students from the richest quarter of the population increased their share of places at America's elite universities from 39% to 50%.

Even outside elite schools, students from poor backgrounds are becoming rarer. The budget squeeze on states in 2001-04 forced them to increase fees at state colleges, traditionally the places where the children of less wealthy parents went. Those children also face increasing competition from richer kids squeezed out of the Ivy League. As a result, a student from the top income quarter is six times more likely to get a BA than someone from the bottom quarter. American schools seem to be reinforcing educational differences rather than reducing them.



The third reason for gloom is perhaps the most worrying. It is the possibility that, as Isabel Sawhill of the Brookings Institution argues, your chances of a good education, good job and good prospects—in other words, of moving upwards—are partly determined by family behaviour. On this view, the rich really are different, and not just because they have more money; moreover, these differences are becoming embedded in the structure of the family itself. Class stratification, in other words, is more than a matter of income or inherited wealth.

College graduates tend to marry college graduates. Both go out to work, so in the households of the most educated the returns to a university education are doubled. College-educated women are also postponing children for the sake of their careers. On average, they have their first child at 30, five years later than in the 1970s and eight years later than their contemporaries who have not been to college.

The trouble with being poor

At the bottom of the heap, you see the opposite: women have children younger, often out of wedlock and without a job. True, out-of-wedlock births are falling and welfare reform has increased the chances of mothers holding down jobs, but the gap is still vast. If, as Ms Sawhill argues, the key to upward mobility is finishing your education, having a job and getting and staying married, then the rich start with advantages beyond money.

This does not mean that America's meritocracy is a fake, or that nothing can be done. The country faced a similar rise in inequality in the early 20th century and rallied against it. President Roosevelt sought to save American capitalism from its own excesses so that “malefactors of great wealth” would not become a hereditary aristocracy.

Today, policy changes, such as reforming the way schools are financed, or giving federal help to poorer

college students, would lessen social inequality. But for that to happen, American politicians and the public must first acknowledge that there is a problem. At the moment, they do not.

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The glue of society

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Americans are joining clubs again

ON CHRISTMAS DAY 2004, Rick Warren, the pastor of Saddleback church in southern California, got a telephone call from Thailand. The caller, a pastor whom Mr Warren had trained, said a tsunami had just been reported and many people would need help. Before the tsunami had even struck Sri Lanka, Mr Warren was calling a vast network of churches in South-East Asia who got parishioners to safety, and e-mailing an even vaster network of clubs in southern California. Thousands of volunteers went into action overnight. Within a day, food and medicine worth millions of dollars were winging their way from a single church to the disaster-hit regions. This was American civic volunteerism in action, updated for the 21st century.

Voluntary associations have been the secret ingredient of American social dynamism since the country's foundation. “Americans of all ages”, wrote Alexis de Tocqueville, “are forever forming associations.” By connecting people to their neighbours and to the wider world, argued de Tocqueville, civic associations made Americans better informed, safer, richer and better able to govern themselves and create a just and stable society. They developed to provide something for everyone: fraternal bodies such as the Kiwanis and Elks for men, cross-class federations such as the League of Women Voters for women, scouts and girl guides for boys and girls. There were farmers' groups, industrial unions and associations of Elvis impersonators. If the great sorting-out is pulling social bonds apart, then Americans' love of clubs seems the most likely glue to put them back together again.

But will it? In 2000, Robert Putnam, a professor at Harvard, wrote a celebrated book, “Bowling Alone”, which claimed that America's civil society was in crisis. Mr Putnam pointed out that in the two decades to the mid-1990s, the number of Americans who said they had attended a public meeting on local or school affairs had fallen by a third. The proportion who said they attended club meetings fell from nearly two-thirds of the population in the mid-1970s to a little over one-third in the late 1990s.

It was not solely the decline in volunteerism that was the problem. The composition of civic associations was also changing. As many of Mr Putnam's critics pointed out, the absolute number of voluntary associations rocketed during that period, from around 8,000 in the 1950s to just over 20,000 in 2000. Optimists said this showed that, far from falling apart, civil society in America was actually flourishing. Americans were finding new ways of linking up and influencing public life.

However, it turned out that the new associations belonged to a different species. Whereas the old clubs had many functions, social, recreational and professional, most of the new organisations—bodies such as the Sierra Club or NARAL, a reproductive-rights group—were professionally led advocacy groups. Whereas the old clubs had networks of local chapters that met frequently, the new bodies often had no such networks, or their chapters met only rarely. And whereas the old clubs depended on annual membership dues, the advocacy groups got their money from foundation grants or direct-mail appeals.

The result, argues Theda Skocpol of Harvard University, was that mass participatory civic life in America declined, despite the proliferation of new bodies. The old associations reinforced ideals of good citizenship. Local and national leaders had to take some note of their members' views. And surprisingly large numbers learned the workings of democracy at first hand. National federations could have thousands of local chapters, each with a number of officers elected each year. Mrs Skocpol calculates that in 1955, the 20 largest voluntary associations alone had 5% of the adult population serving in some capacity or other. All these local officers had to run meetings, handle membership dues, keep records and so on.

AP

America needs him

By contrast, people typically become members of one of the new bodies by replying to a direct-mail shot. There are no local officials. National leaders spend their time fund-raising or lobbying politicians in Washington to change the law. These are not primary schools of democracy.

At first sight, the shift from one kind of organisation to another seems inevitable: it is a product of mobility. “People are like plants,” says Mr Putnam. “When you re-pot us, it takes a while to put down new roots.” Clubs tend to be products of stability. But Americans were moving around a lot, so they started joining long-distance organisations instead of face-to-face clubs.

Yet that cannot be the whole story. There were more face-to-face clubs in the 1950s, when geographical mobility was even higher than it is now. Part of the explanation is that civic volunteerism is also being eroded by things that have little to do with mobility per se: television and computers; hours spent stuck in traffic jams; even the decline of family meals because both parents are at work.

In need of friends

But the bigger part of the explanation has to do with the paradoxical impact of mobility itself on people's clubbiness. Its direct effect is to disrupt community ties. You see this, for example, among Hispanic immigrants, who have lower rates of joining voluntary associations than do native-born Americans. But the indirect effect of mobility is to stimulate the appetite for social bonds, so when they arrive, immigrants strive to rebuild networks—for example, by organising huge celebrations for Cinco de Mayo (Mexico's national day).

Hence the decline of community ties may well be connected to continued geographic mobility. But that does not mean, as pessimists fear, that mobility will continue to eat away at them until America becomes totally atomised. Because mobility stimulates demand for clubs, you would expect to find new forms of civil volunteerism starting to crop up. And you do: after years of decline, civil society is staging a comeback.

This is showing up in three areas. First, after the terrorist attacks of September 11th 2001, civic and public engagement spiked. Church-going and other sorts of voluntary activity increased. Trust in government rose sharply, to a level not seen since the 1960s. Most of these things dropped again soon afterwards, but not all of them.

The 2004 election saw the biggest turnout for almost 40 years. George Bush's vote was 23% higher than it had been in 2000, and John Kerry's was 16% higher than Al Gore's had been, though the smaller parties did less well. The campaign also produced volunteers in droves. There were specific explanations for this: the election was close, and America was at war. Still, September 11th may also have re-engaged Americans with public life.

Moreover, there are now four years of indicators showing that the terrorist attacks had an enduring impact on one specific group: those who were in their late teens or early 20s at the time. A project at the University of Maryland under Bill Galston is looking at the attitudes of this dotcom generation. In the year after September 11th, volunteering by 15-25-year-olds leapt, with 40% saying they had volunteered over the previous 12 months, compared with a third for all age groups. That surge has

endured. The University of California at Los Angeles is tracking civic engagement at universities, and has found that college freshmen are much more likely to keep up to date with and discuss politics than they were in 2000.

After the second world war, the shared experience of combat created a “greatest generation” that consistently voted more, joined more clubs and volunteered more hours than either their parents or their children. It is too early to tell whether the terrorist attacks will have anything like that impact. But the evidence is growing that they have created a “9/11 generation”.

Second, the internet is at last beginning to have an effect on voluntary associations. When Mr Putnam published “Bowling Alone”, one of the most common objections to his thesis was that he had underestimated the role of technology (which was then caught up in the dotcom bubble). Yes, the techno-optimists said, people may not be joining traditional clubs, but they are joining “virtual communities” online. Five years later, they are being proved right.

The electronic welcome mat

At first, it seemed as though Mr Putnam's scepticism was justified. The anonymity of virtual communities appeared to be fatal to the creation of trust and of real civic bonds. When half the members of a teenage girls' online chatroom turned out to be middle-aged men, it was hardly a Tocquevillean moment. But over the past few years, online groups have started to use “convening technology” to create face-to-face social bonds. For example, if you go to meetup.com, you can type in where you live and what your interests are—say Young Republicans, Chihuahuas or Brazilian reggae—and the site will tell you where and when Young Republicans, Chihuahua fanciers or Brazilian reggae enthusiasts are meeting up within 15 miles of your home over the next two weeks.

One of the founders of Meetup, in New York in the aftermath of the September 11th attacks, was Scott Heiferman, who had been reading “Bowling Alone”. “In those first few days after 9/11”, he says, “New York felt more like a city of neighbours than of strangers. The question I started with was: how do you start an association today? Do you need a building in Washington? No, you go online.”

Since 2002, Meetup has been the forum for over 100,000 clubs with 2m members. This spring there were 2,400 Meetup meetings a week, about 50% more than a year earlier. It is true that these are often meetings of the like-minded, of people with particular tastes in common, rather than universal gatherings of the old national federations that tied disparate groups together. It is also too early to say whether a single website will reverse decades of civic decline: meetup.com is only three years old and has just started charging, with unpredictable consequences.

Still, the growth is impressive. And Meetup is not the only example. One of the most interesting sideshows of the 2004 election was Howard Dean's successful use of the internet to mobilise supporters and raise money. Politically, his campaign was a disaster, but party managers everywhere took notice.

Moreover, these internet-generated meetings are the traditional face-to-face kind that Mr Heiferman calls “the old Tocquevillean stuff”. To cite one small example, the New York Chihuahua club organised a protest by city dog owners against attempts to close dog parks. “The 300 Chihuahua groups around the world think of themselves as a chapter-based organisation,” says Mr Heiferman. In the past, when you moved house, you could lose touch with your local chapter. Now you go online and plug into a network.

The third force helping to revive old-fashioned civic life is religion, and one sort of religious organisation in particular, the megachurch. In many ways, religion itself is an exception to the rule that chapter-based voluntary associations are in decline. Churches are the archetypical civic clubs. Congregations meet regularly face to face. They give money every week. Parish committees are the equivalents of local chapters. Churches have long played a hidden (and sometimes not so hidden) part in political life, from the black churches' role in the civil-rights era to Evangelical Protestant churches in Mr Bush's re-election.

Reliable figures on recent church attendance are hard to come by, but both Gallup polls and church records suggest it was flat between about 1980 and 1998. Some studies, and a mass of anecdotal evidence, suggest that in the past few years attendance may well have been rising. It is pretty safe to say that church attendance has not fallen—and that alone makes churches stand out from the general civic decline.

Getty Images

But over the past few years, one particular part of the American religious line-up has done far more than merely avoid decline. This is the megachurch, usually defined as a church with an average congregation of more than 2,000 each weekend. In 1960, there were fewer than ten of these. Now the number has risen to at least 1,200, according to the Hartford Institute for Religion Research. Twenty of these churches have weekly congregations of 10,000; three have over 20,000. They are Willow Creek outside Chicago, Lakewood in Houston and California's Saddleback. Nearly all their growth has taken place in the past 20 years. Saddleback, which has 82,000 people on its church rolls, held its first service 25 years ago.

Mr Putnam points to two aspects of the success of megachurches that matter to civic organisation in America. Neither has anything to do with doctrine. The first is that founders of megachurches made them attractive to people who were mildly religious but not committed in advance. Mr Warren of Saddleback and Bill Hybels of Willow Creek both went round asking neighbours who did not go to church what they disliked about it and what would persuade them to go.

They redesigned their churches on the basis of this consumer research. Out went 200-year-old hymns, pulpits and even church-like buildings. In came information booths, food courts, churches that look like schools, reggae services and sermons with Powerpoint presentations. As one Californian pastor told the Hartford Institute, “We're trying to create an environment here so the unchurched person can come in and say, ‘This is a church like I have never known.’ ” If megachurches can win millions of new supporters by lowering barriers to entry, there is no reason why secular civic organisations cannot do the same.

The second and more important feature of the megachurches is that they have created huge numbers of small groups. Saddleback has 2,600 small groups, co-ordinated by 9,200 ministers, for its congregation to join—for computer nerds, cyclists, knitters, you name it. This is a close approximation to the thousands of chapters of the old-fashioned voluntary associations, and makes it possible to engage in social activism on a grand scale. Last year, Saddleback decided to feed all 42,000 homeless people in Orange County for 40 days, and did it.

According to Peter Drucker, a veteran management writer, “The most significant phenomenon in the first half of the 20th century was the company. The most significant phenomenon in the second half of the 20th century was the large pastoral church.” Just as small churches civilised the Wild West because they were the first real community organisations in frontier towns, so megachurches—which are most prevalent in new suburbs and in the sunbelt—are providing community bonds on the new frontier of America's middle-class migrants.

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American politics is both too rigid and too flexible

AMERICAN society has been getting less like Europe's. It is growing faster and ageing more slowly, it is geographically more mobile and (dare one say it) has become more divided between rich and poor. Yet at the same time, the structure of American politics (though not its ideology) is getting more "European". Political parties are becoming more coherent in their beliefs, and the system of government is more centralised.

This is almost the opposite of what one would have wanted. At a time of shifting populations and big changes in the fortunes of regions, the federal system is becoming more rigid and less responsive to local interests. And at a time of deepening worries over class and income, the parties have become more responsive to extreme partisans and more stratified by income.

Start with the federal system. For a while, things seemed to be looking up for states' rights. The Supreme Court struck down several federal laws on the ground that they infringe states' constitutional prerogatives. The court invalidated the main part of the Violence Against Women Act. It ruled that states could not be sued under the Americans With Disabilities Act. It found that Congress could not compel local sheriffs to conduct background checks on gun-owners. And it recently expanded local government powers to buy private property for "public purposes".

But the impression of decentralisation was misleading. The court's majorities were often narrow and could be reversed in the future. The court has not always given precedence to state law, rejecting, for instance, state claims to immunity under the Family and Medical Leave Act, striking down attempts by California to impose certain restrictions on welfare benefits to new residents, and recently upholding Congress's power to overrule state laws legalising medical marijuana.

Most important, the court is fighting a rearguard action against a federal government that is relentlessly increasing its powers over the states. Exhibit A of this trend is the No Child Left Behind Act. This dramatically increased federal spending on secondary education, which was supposed to be a state and local preserve. It also required states to start administering nationally mandated tests.

AFP

Divisive union

Education is only one example. Marriage laws have always been a matter for individual states, but Mr

Bush wants a Federal Marriage Amendment, superseding state law, to ban gay marriage. State courts have always ruled on life-or-death questions such as switching off a patient's life-support system. But when the Florida courts allowed the removal of the feeding tube of Terri Schiavo, a young woman in a persistent vegetative state, Congress invited federal courts to intervene (which they declined to do). This year's tort reform requires certain class-action law suits to be heard in federal courts, not state ones. Now the federal government is pushing for minimum standards on such things as state driving licences.

Admittedly, there are two big exceptions to the pattern of increased federal intervention. The Welfare Reform Act of 1996 delegated more power to the states by handing over a fixed annual grant and allowing them to spend the money as they wished. It is possible that the proposed reform of the Medicaid system (health care for the poor) could follow suit.

But even here, Congress imposes federal requirements, such as time limits for welfare payments, and is proposing to do likewise for Medicaid spending. Moreover, argues Pietro Nivola, the head of the Brookings Institution's Centre on Governance, the contrast between welfare reform, which was decentralised, and gay marriage, which is going the other way, suggests something depressing: that when politicians really care about something, as Republicans do with moral issues, they want to control and centralise it. They let control of an issue go to the states only if they are not all that interested in it.

The main advantage of a federal system is that, when there is no national consensus, different places can try different things and everyone can learn from the results. This is all the more important in sprawling, rumbustious America. If parties are going to centralise those things they care about most, regardless of whether there is a consensus, it does not bode well for American federalism.

Party games

The party system is an even more egregious example of ideology fostering centralisation and rigidity. American parties used to be ad hoc cliques and loose regional coalitions. Party grandees chose likely candidates on the basis of patronage and loyalty, not ideology. But the defection of conservative southerners from Democrats to Republicans—and the mirror-image move of north-eastern Republicans to Democrats—made both parties' ideologies much clearer. Now almost all conservatives are Republican and almost all liberals are Democrats. When George Wallace was governor of Alabama, he used to say that there wasn't a dime's worth of difference between the parties. You could not say that now.

In some ways, increased party coherence has been good for America. It certainly seemed to help the turnout in the 2004 election. True, it has led to greater polarisation; but there is something to be said for clarity, argues Mr Nivola. The public philosophy of the Democrats is much clearer now than it was in the days when the party was a bizarre amalgam of blue-collar unions, Vietnam-war demonstrators and southern segregationists.

Agreeing to disagree

If polarisation had led to tension and violence, it would be a different matter. But America experienced far greater turbulence during the 1960s, an era of urban riots, anti-Vietnam-war demonstrations and battles over race and civil rights. Polarisation has not even led to political deadlock. Since Mr Bush became president, Congress has cut taxes, reformed secondary education, added prescription-drug benefits to Medicaid, passed the Patriot Act, created the Department of Homeland Security (the largest reorganisation of government since 1948), changed the bankruptcy and securities laws, and limited class-action law suits—all while fighting two wars. It would be hard to claim that ideological conflict has made government itself unworkable.

All the same, sharper partisan differences have a downside. Ideological coherence has enabled national leaders to increase their control over the parties in Congress. This has led to abrasive adversarialism, marginalised the centre and made the political process more rigid, more stratified and less responsive to ordinary voters or local interests.

Before the mid-1990s, lawmaking was a purgatory of compromise. Committees of both House and Senate held hearings and amended bills. Committee chairmen, appointed by seniority, wielded considerable power. Bills had to pass a conference stage in which the House and Senate versions were reconciled.

Now the congressional leadership decides who gets on to committees (the seniority system is long

gone), and the system for amending bills has all but collapsed. Laws are drafted by congressional leaders and the White House. Bills are sometimes voted on under a “closed rule” (no amendments allowed), or the legislative timetable is manipulated to prevent hearings. The conference stage—a last chance for a compromise—has occasionally been omitted altogether. This year, the leader of the Senate even tried to end the last parliamentary technique left to the minority party, or any senator, to hold up proceedings: the filibuster. His attempt to stop filibusters on judicial nominations was forestalled at the last minute, but the threat remains.

All this has led to extraordinary levels of political discord, to “slash and burn” tactics affecting the institutions of government, and to a defensive zero-sum partisanship (any gain for me must be a loss for you) which is at odds with American optimism and openness. All of that would matter less if congressional leaders were becoming more responsive to their constituents, but they aren't.

AP

Nastier politics, bigger turnout

The exigencies of party discipline require top congressmen to set an example. In 2004, the *National Journal*, a non-partisan public-policy magazine, rated Dennis Hastert, the Republican speaker of the House, the most conservative member of Congress. Tom DeLay, the majority leader, came second. This has more to do with their leadership positions than with opinions back home. And the nearer you get to the top, the more ideology rears its head. Gary Jacobson, of the University of California, San Diego, calculates that the longer a representative of either party stays in Congress, the more extreme his or her voting record becomes.

Such radicalism is out of step with public opinion. Americans talk of red and blue states, of a 50-50 nation and of the dominance of “values”—as if their country contained two irreconcilable, parallel universes. But the evidence for popular—as opposed to political—polarisation is weak. Republican and Democratic voters mostly agree even on culturally loaded matters such as gun control and abortion (they are in favour of both, with reservations). The differences are ones of degree, not kind.

Between two extremes

Such differences become harder to express if politics is polarised. As Morris Fiorina of Stanford University points out, if one party is extreme and the other is not, moderate voters can punish the extremists. But what if both are extreme? A moderate voter can only gravitate to the nearer pole—and feel dissatisfied. Asked whether the president “has the same priorities as me”, only a third of Americans agree. If the same question is asked about Congress, the figure is just 17%, one of the lowest rates on record. Ideologically driven partisanship forces people whose opinions are not sharply divided to separate themselves into hostile blocks.

It also overrides local interests. One of the main reasons why politicians these days are more partisan even before they enter Congress is that their districts have been gerrymandered to be safe. This shifts politicians' attention away from ordinary voters—whom they can more or less take for granted—and towards party activists, who have the power to elect or eject them in primary contests. Redistricting makes politicians more extreme than they would otherwise be and produces preposterous stasis (98% of congressmen are re-elected).

Less often noticed, redistricting embodies the triumph of national priorities over local ones. It was Mr DeLay, for instance, who rammed a controversial 2002 redistricting plan through the Texas state legislature. Because of geographical mobility, redistricting is much more important in America than in

any other democracy. Redrawing the map is the only way to reflect the demographic changes in a district. In practice, the new map almost always reflects the national calculations of partisan ideologues.

There is a final drawback to ideological coherence: it is associated with greater political stratification by income. This assertion is both welcomed and denied by different groups of Americans. Unfortunately, it is both true and unwelcome.

A touch of class

In American politics, “class warrior” is the greatest insult you can throw at an opponent. It means, “That's the kind of politics practised in Britain. Why do you think we had a revolution?” Americans are reluctant to admit that their parties are even remotely class-based. And on the face of it, they seem to be right. In 2000 and 2004, Mr Bush got the vote of a majority of the white working class (here defined as whites without a college degree). Among this group, he beat Mr Gore by 17 points and Mr Kerry by 21. Conversely, most of America's richest places—Manhattan, Beverly Hills, Georgetown—are solidly Democratic. On that evidence, it does not look as if the Republicans are the party of the rich and the Democrats that of the poor.

But they are. Larry Bartels of Princeton University calculates that, in the six presidential elections from 1952 to 1972, the Republican candidate got roughly the same share of the white vote within each part of the income scale. The gap between top and bottom during these years was only 4.3%. In the seven elections from 1976 to 2000, the gap between top and bottom more than trebled to 14.3%. It is possible that demography, rather than income itself, was partly responsible for this change. Married couples tend to vote Republican and singles vote Democrat, and married couples may generally be better off. But whatever the cause, the connection between party affiliation and income is becoming more pronounced.

Mr Bush did not change this in 2004. The gap between top and bottom in that election was 13.8%, very close to what it had been from 1976 to 2000, and he won in every group with a household income of more than $50,000 a year. Mr Kerry, for his part, won in every group with an income of less than $50,000 (where blacks have a disproportionately large share).

Given the parties' ideological stances, this should not be surprising. At a time of growing income inequality, it might even be beneficial. For decades, American political scientists have been saying that America needs a properly organised, “responsible” party system, based partly on economic interests, in order to have a proper debate about social equality. As V.O. Key put it in a classic book, “Southern Politics in State and Nation”, published in 1949: “Over the long run, the have-nots lose in a disorganised politics.” His argument was that unstable, factional one-party rule—such as prevailed in most of the South in the 1940s—led to favouritism and graft, discouraged a sense of responsibility among elected officials and squelched competition between the haves and the have-nots.

America now has a less disorganised politics. But it is not clear that the have-nots are any better off. A study of voting patterns in the 1990s compared two groups, people with annual incomes over $75,000 and under $15,000. The disparity in their voting behaviour was huge: 86% of the wealthy but only half of the poor bothered to vote at all, even though the Voting Rights Act had brought poor southern blacks into the electorate and legal requirements had been eased to make voting easier. Even protesting—allegedly the weapon of the weak—was twice as common among the affluent.

It may be tempting to conclude that the poor are marginalising themselves, and there is not much that can be done about it. Even if that were true, it would hardly be reassuring that so many people from one particular economic group are opting out of one of the basic responsibilities of citizenship. But in fact there are two reasons for thinking that the poor are not merely marginalising themselves, they are also being marginalised.

One reason has to do with the shift in the composition of America's voluntary associations described in the previous article. As membership-based federations such as trade unions have declined in importance, the political influence of professionally run advocacy groups such as the Sierra Club has grown—and the poor do not belong to them. Americans on below-average incomes are much less likely than well-off ones to have university degrees, but of those among them who join large public-interest advocacy groups, at least three-quarters are graduates. In general, advocacy groups do not play the same role in bringing people into politics as the old federations did. But such role as they have is reserved for the best-educated.

The other factor is the growing influence of money in politics. Money is the means by which American

interest groups express their preferences. If it is an evil, it is a necessary one. But inevitably it reduces the political influence of the poor. In the 1990s, 56% of those with incomes over $75,000, but only 6% of those with incomes below $15,000, made political contributions. This applies to Democrats as much as to Republicans. A study in 1990 confirmed that Democratic voters were indeed poorer than Republican ones (their average family income was about $10,000 lower). But the incomes of donors to both parties were almost the same. Both are financed by their wealthiest supporters.

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In America, the hare usually wins

ISRAEL ZANGWILL'S play, “The Melting Pot”—an inter-religious version of “Romeo and Juliet”, set in early 20th-century New York—lent its name to the idea that the multiple backgrounds of America's citizens tend to coalesce into a single distinctive Americanness. This survey began by asking whether America was inverting this process and becoming a centrifuge. Much of the evidence suggests that it is.

Americans are separating themselves out into winners and losers, according to how much they earn, where they live and how they behave. With this heightened sense of separation goes a more rigid and stratified politics, both reflecting and reinforcing a more hierarchical society: the antithesis of the American Dream. Yet not all the movement is one way: immigrants are still assimilating, and Americans are joining clubs again.

Both benefits and drawbacks are products of the same underlying force, which this survey has called the great sorting out. This differs from the more dramatic and damaging kind of social division, or splitting, familiar from history (eg, America's own civil war), from recent nationalist upheavals (eg, the collapse of the Soviet Union and former Yugoslavia), or even from the sort of deep division found between the French and north African immigrants.

Sorting out means groups of like-minded people are clustering together by choice. The process may result in discord but is not created by it. Splitting, on the other hand, is usually created by discord and produces even more. It implies that the groups people form are not merely separate but opposed. In contrast, the groups created by sorting are rarely influenced by things such as class resentment or historical grievance. Sorting does not necessarily imply that social ties are weakening. Splitting does. It is the difference between growing apart and falling apart.

America is sorting rather than splitting. With the important exception of the rich, who are getting richer, Americans do not seem to be becoming less like one another than they were, say, 40 years ago. They still watch the same films and shop at the same stores. They are still mostly religious, optimistic and tolerant; indeed, they may be more tolerant than they were in the 1960s. They still believe in the American Dream, even if in practice their chances of achieving it may have lessened.

Political differences flourish at the elite level but are much less marked at the popular one. The political parties are at each other's throats and their adversarialism is making government more inflexible; yet there is less social upheaval than during the Vietnam war or the civil-rights era. This may not be as much of a paradox as it seems. As Americans have sorted themselves out by party, politics has become more accommodating to extremists of both left and right, but because the extremists have been absorbed into politics, there are fewer demonstrations in the streets.

Sorting unquestionably produces winners and losers, and class has reappeared in America in a particularly worrying form: success in life is becoming correlated with personal and family behaviour. People who become educated, get a job, stay married and postpone having children produce offspring who follow the same pattern. On the other hand, the winners that result from demographic mobility are not fixed and permanent: the magnets that attract migrants change all the time.

Because sorting is a result of demographic dynamism, it is associated with growth and achievement as well as failure and divisiveness. America's fast-growing areas have been responsible for many of the country's productivity gains since the mid-1990s. Fast-growing suburbs are ethnically more mixed than cities. Some—though certainly not all—of the reduction in racial tension since the 1960s can be attributed to Americans' propensity to move. And the willingness to take in large numbers of immigrants has helped those who arrived earlier, offsetting the tendency of big cities to age and providing the workers that fast-growing areas need.

Lastly, because sorting out is a fluid process, problems can be put right relatively easily. In the 1970s and 1980s, America's voluntary associations went through a period of decline, partly as a result of mobility. Yet those centrifugal forces also stimulated a new interest in clubs, and America's “little platoons” have returned.

This is not to say that sorting has been a uniform blessing, merely that it mixes good with bad. The Latin word *sors* means lot or fate. If you are born in a struggling industrial city, or come from a background without work or education, the process of sorting may make it harder to escape. But America, with its extraordinary resilience and dynamism, has survived plenty of conflict in the past. Indeed, its very dynamism creates both conflict and the strength needed to overcome it.

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German business

Dark days for Volkswagen

Jul 14th 2005 | FRANKFURT
From The Economist print edition

EPA

Germany's most protected company has been rocked by a boardroom scandal just as its business is facing a severe test

VOLKSWAGEN (VW) cars ranked a miserable 34th out of 37 brands in a recent quality poll by J.D. Power, a market-research firm. “Unacceptable”, says Wolfgang Bernhard, head of VW branded vehicles, who addressed investors on July 13th in an effort to convince them that the firm's quality and cost issues are being tackled. But these are just a symptom of deeper problems at Europe's biggest carmaker. The real sickness lies at the management level—the source of a sex and corruption scandal now gripping Germany.

The latest and most senior head to roll, this week, was that of Peter Hartz, VW's director of personnel, a friend of Germany's chancellor, Gerhard Schröder, and architect of the government's labour-market reforms. Mr Hartz took responsibility for the alleged misuse of company funds by workers' representatives under his command. The allegations included the procurement of prostitutes and luxury foreign travel for employees who were also members of VW's supervisory board. State prosecutors are investigating.

In mid-June an internal audit by VW began to uncover a web of dummy companies that Helmuth Schuster, head of personnel at Skoda, VW's Czech subsidiary, and others at VW appear to have used to channel backhanders in exchange for business favours. Mr Schuster and Klaus-Joachim Gebauer, a personnel manager, were fired. Klaus Volkert, a workers' representative on VW's supervisory board, quit at the end of June. Juicy allegations have appeared in the tabloid press. Even the supervisory board chairman, Ferdinand Piech, may have to go for presiding over the mess and defending Mr Hartz.

VW has lived too long in a twilight world between business and politics. Its biggest shareholder, with 18.2%, is the state of Lower Saxony, which also has two seats on the supervisory board. According to a 1960 law, no single shareholder can exercise more than 20% of the voting rights—so VW is in effect protected from being taken over, while the political stake makes it hard to cut jobs or close excess capacity. The European Commission is trying to get Germany to change this law, arguing that it inhibits the free flow of capital across EU borders. It took the case to the European Court in March, but is unlikely to get a verdict before the end of 2006.

The workers rule, OK

The troubles at VW have also been blamed on Germany's co-determination law. Any firm with 2,000 employees must give workers' representatives half of the seats on its supervisory board. With over 20,000 employees (VW has 343,000) there must be ten of them on its 21-member board—seven from the workforce, three from the unions. Adding the two political board appointees, the private shareholder representatives are outnumbered. No wonder VW has become somewhat indifferent to the needs of those shareholders.

For IG Metall, Germany's biggest blue-collar union, VW is so crucial that it sends along its boss, Jürgen Peters. All but 3% of VW's employees are IG Metall members, including executives such as Mr Hartz. Mr Peters this week claimed—optimistically—the right to propose Mr Hartz's successor.

The bad publicity and resulting management shake-up come as VW's core business is in its worst shape in a decade. Profit before tax fell from a peak of €4.4 billion ($3.9 billion) in 2001 to only €1.1 billion last year. The VW brand itself actually lost €44m in 2004: the firm's operating profit of €1.6 billion came from its other brands, such as Audi, and from financial services. Its plummeting quality reputation in America (especially) contributed to losses of over €900m there last year. The firm's Chinese business is no longer the nice little earner it was: General Motors has grabbed share in a market whose growth rate has been slowing down.

Still, the firm's brands remain ahead in western Europe, with a combined market share of nearly 18%, in front of France's PSA Peugeot-Citroën group (just over 14%). But VW-badged cars have slipped from 11% to 9.4%, allowing Renault to become Europe's leading brand. As well as France's resurgent carmakers, VW must contend with the renewed drive in Europe of Japan's and South Korea's carmakers.

Bernd Pischetsrieder, VW's chief executive, is still trying to rescue the firm from the legacy of the flat-out growth strategy pursued by his predecessor and (for now) supervisory board chairman, Mr Piech. This strategy involved—sensibly enough—the same platform (chassis and underpinnings) being used for an entire range of models, from VW Golfs to Skodas and Seats. But VW failed to manage the risk that all these models would be in competition with each other. And it ignored other growing segments of the market, such as that for the compact MPVs (multi-purpose vehicles) invented by Renault with its ground-breaking Scenic in the mid-1990s.

There have been other management failures. The decision to launch a luxury VW, priced at over €90,000, has wasted time and money. And VW invested heavily in Brazil at precisely the wrong time, just before the market collapsed.

Mr Pischetsrieder's response to growing troubles last year was to hire Mr Bernhard, who had previously put Chrysler back on the road by cutting costs and improving quality. Mr Bernhard was due to take charge of DaimlerChrysler's Mercedes arm early last year, but he so ruffled the unions and middle management with talk of radical surgery that Daimler's boss Jürgen Schrempp got rid of him.

This week, Mr Bernhard told VW's shareholders that the firm's emphasis is now on profits rather than growth. He has much to do at VW. Factories at Wolfsburg, its home in Lower Saxony, are operating at only 70% of capacity, well below the profit-making level. VW's labour costs are 40% above those of its rivals. Yet Mr Bernard's hands are tied by last year's labour contract, struck to great acclaim by Mr Hartz, which guarantees VW's workforce job security until 2011 in return for a wage freeze for three years.

Mr Bernhard aims to raise VW's operating profits by some €7 billion a year by 2008 to meet his boss's target of a boost to net profit of €4 billion by the same date, given the threat of rising steel prices and a falling dollar. He says he hopes to get €2.2 billion by selling more cars. That is plausible, as the firm's latest models have cut the age of its model range (usually a leading indicator of higher sales) to under three years, one of the youngest fleets in Europe. But the other €5 billion will have to come from squeezing suppliers and other costs.

Mr Bernhard will spell out his plans to his (perhaps much changed) supervisory board by the end of the year. For now, he avoids going into detail, apart from insisting that he will do everything possible to honour the labour contract and avoid compulsory redundancies. He told analysts on July 13th that there would be no “sacred cows” when it came to cost cuts, but also said there were no plans for factory closures. That did not end speculation that a VW plant in Brussels will be closed.

Will the scandal make it easier for Messrs Pischetsrieder and Bernhard to win concessions from the

unions and change the culture at Wolfsburg? Mr Pischetsrieder certainly knows how highlighting a crisis can trigger change. While boss of BMW he shocked its British workforce during a product launch by his ailing Rover subsidiary when he publicly chastised them for poor productivity. The result was swift and unexpected: the board fired Mr Pischetsrieder for over-dramatising the firm's troubles. Surely history is not about to repeat itself?

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Russia's car industry

A new motown

Jul 14th 2005 | ST PETERSBURG
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Any colour you like, so long as it isn't red

Reuters

My other car's a Lada

RUSSIANS often combine a prickly nationalism with a tendency to self-deprecation. This latter trait becomes especially pronounced when they bemoan the shoddiness of Russian manufacturing. One of the traumas of the Soviet Union's collapse was the realisation it brought of just how shoddy some of it was—above all the Russian-made cars that many people had waited half a lifetime to own. Now foreign car firms are responding to this scepticism, and to rising incomes and booming sales, by setting up shop in Russia.

St Petersburg, Russia's second city, is emerging as the location of choice. Toyota, Japan's leading car firm, broke ground there last month on a factory that will build 20,000 Camrys a year by the end of 2007. DaimlerChrysler will be next. Mikhail Osievsky, St Petersburg's deputy governor, says that the city is also talking to other firms. Ford already assembles its Focus model just outside town and is expanding production to 60,000 cars a year.

Why beautiful St Petersburg and not traditional carmaking regions such as the Kaliningrad exclave on the Baltic coast, or Togliatti on the Volga river? Tomoaki Nishitani of Toyota says his firm chose St Petersburg over Moscow and Nizhny Novgorod partly because it is on the Gulf of Finland, helpful for importing parts. And it is near several European Union countries, which—if the tariff situation ever improves—will help exports. There are tax breaks for big investors. Henrik Nenzen, of Ford, says that local labour costs are only a third of, say, Germany's.

St Petersburg is also the second biggest chunk of the Russian market, after Moscow. While low by western standards, Russian car ownership is rising fast. Ford expects to sell 60,000 cars this year (25,000 made in Russia), for $1 billion; in 2000, it sold 1,400. This year Toyota has already shifted over 30,000 vehicles. Daewoo and Hyundai, two Korean manufacturers, are also big sellers. In a recent report, PricewaterhouseCoopers calculated that 225,000 new foreign cars were imported into Russia in the first half of 2005, compared with 280,000 in the whole of 2004.

Along with rising incomes, a nascent consumer-credit industry has helped buyers to bridge the gap between the price of Russian and foreign cars. And costlier materials have driven up the price of Russian brands. Mr Nenzen says the urge to trade up—52% of Ford buyers previously drove a Russian car—partly reflects greater discernment, as motorists learn to consider lifetime costs (repairs, fuel use, etc) and residual value, not just the upfront price.

What of the legendarily murky Russian car industry? Sales of domestic marques are down by 14% on the first half of 2004. Its usurpation was symbolised this week when the first Logans made by Renault at the former Moskvich plant in Moscow went on sale. (This is a joint venture with the Moscow city administration: a useful partner, says Renault's Jean-Michel Jalinier, in a bureaucratically fraught business climate.) The future for Russian firms may lie in assembly deals with foreigners, such as that between General Motors and Avtovaz. Russia's government now seems to be putting overall growth before protecting local car firms, though changes to import rules for second-hand cars may help at the bottom end of the market. Now, if only they would do something about the bribe-hungry traffic police.

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Identity theft

A PIP of progress

Jul 14th 2005 | SAN FRANCISCO
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An entrepreneur helps people to look at their personal public records

LAST year, Harold Kraft, an anaesthesiologist by training, had “an epiphany”. It was about the frighteningly intricate “threads” that Americans unwittingly leave behind whenever they buy a house, register for a driver's licence, appear in court, file an insurance claim, pay their electricity bill, or indeed do almost anything at all. Mr Kraft realised that America's so-called public-records information is really a misnomer, since ordinary Americans have no clean and easy way to find out what is in their record, or to correct it if it is wrong. So Mr Kraft started a company, MyPublicInfo, to change that.

This week, MyPublicInfo officially launched its product, called the PIP, or public information profile. For $79.95, Americans can now go to the firm's website, answer some multiple-choice questions to verify their identity, and see, within hours, all the public records about themselves from thousands of databases across the country. They are in for a shock. There, on a screen, is their entire life, as any sleuth doing a background check would see it—30-year-old addresses, the names of all the other people who ever lived there, and so on. A few will see crimes they never committed or assets, supposedly hidden from the taxman, that they never owned.

Public-records information—not to be confused with a person's credit history—is the sort of data collected by private-sector “aggregators” such as ChoicePoint and Lexis Nexis, which both earlier this year admitted that they had lost or compromised the information of hundreds of thousands of people. These data include birth certificates, business licences, liens, convictions and so on. When a thief uses somebody's credit history—perhaps by stealing a credit-card number—it usually leads “only” to a financial loss, which can be made good. By contrast, identity theft or accidental confusion involving public records (whenever a clerk in a district court mistypes a social-security number, say) can lead to more devastating mix-ups. People have been denied insurance because they were mistaken for arsonists. Some people in Florida were stopped from voting during the infamous presidential election in 2000 because convictions wrongly appeared on their records; one election official reportedly threw away the list of those ineligible to vote for that reason after seeing her own name on it.

As hair-raising as using Mr Kraft's PIP can be, it is a big step forward. Regulators do not currently seem on top of the problem of identity theft, just as they never quite mastered the challenge of another modern nuisance, e-mail spam. But as with spam during the past year, the speed and ingenuity of private entrepreneurs may help, if not to make the problem go away, at least to make it manageable.

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Disney

Restoring magic

Jul 14th 2005
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Michael Eisner's successor, Bob Iger, is off to a good start

EVEN as Michael Eisner works his last summer as boss of the Walt Disney Company, his successor, Bob Iger, is rapidly solving the problems that Mr Eisner helped to create. Disney announced last week the end of its damaging feud with Roy Disney, nephew of the firm's founder. As a result, the company's executives and board members will avoid having to go to court in Delaware for a second time this year (the evidence phase of their trial over the severance pay of Michael Ovitz, a former executive, ended in January).

Mr Iger, who formally takes charge on October 1st, was a controversial choice by Disney's board. He was Mr Eisner's preferred candidate, whereas some investors and board members wanted a clean break from Disney's difficult recent past. So far, however, Mr Iger has shown that he is his own man and that he is prepared to change Disney's corporate culture.

Mr Disney and his investment adviser, Stanley Gold, resigned from Disney's board in 2003 and ran a campaign against Mr Eisner which resulted in 45% of shareholders withholding their votes from him at the firm's annual meeting in 2004. When Mr Iger was chosen to succeed him, they sued Disney's directors, accusing them of rigging the selection process in favour of the sole internal candidate. The trial was to begin in August.

The rebels have now agreed to drop the lawsuit and have promised not to run a rival slate of directors or to submit shareholder resolutions for five years. All Mr Iger had to do was show some respect to Mr Disney—who will become a consultant and, symbolically, “director emeritus”.

An important first step by Mr Iger, earlier this year, was to disband Disney's central strategic-planning department—hated internally for vetoing most ideas from Disney's divisions. Mr Iger said that he wants the heads of Disney's businesses to have more say in their strategy, not least to help make Disney nimbler.

Now Mr Iger is busy wooing Steve Jobs, founder of Pixar, a successful animation studio, and boss of Apple, a computer company. Mr Eisner fell out with Mr Jobs. Last year Pixar broke off talks about extending its current five-film deal with Disney beyond 2005. Much of the problem, it is said, was that Pixar, on a hot streak of films, made a surely impossible demand: that to get a new deal, Disney had to forgo hundreds of millions of dollars due on movies covered by the current one.

Disney now has a far stronger negotiating position says Lawrence Haverty, a fund manager for Gabelli Global Multimedia Trust, owing to the current weakness of the DVD market. In June, Pixar cut its second-quarter profit forecast after weak sales of “The Incredibles” on DVD. This week Dreamworks Animation, another small studio, cut its forecasts and cancelled a secondary offering of shares after disappointing DVD sales. Pixar, heavily reliant on DVD revenues, will probably now offer Disney more favourable terms.

Mr Iger's longer-term challenge is how to refine Disney's wider strategy. His current plan has three parts: creating attractive content; pursuing opportunities in new media; and expanding international profits. On profits, Mr Iger has been specific: he aims to increase overseas profits from 35% of Disney's total operating profit today to half within the next five years.

On current trends, that is likely to be difficult. Mr Iger is emphasising China, India and Russia as the high-growth markets that will help to achieve his goal. But competitors estimate that these three markets together generate revenues of barely $200m each year (Disney does not provide a breakdown). If these countries are to propel international profits to half of Disney's total profits by 2010, the

company will have to nearly double their contribution each year for the next five years. Mr Iger must be aware that a more realistic way to reach his target would be to make a large acquisition in a developed market such as Germany, Britain or Japan. That may provide the true test of whether he really has the magic touch.

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The restaurant business

Thin pickings

Jul 14th 2005 | NEW YORK
From The Economist print edition

Tough times for America's restaurants

WHEN a customer claimed to have found a severed finger in a bowl of chilli served at a Wendy's fast-food franchise in California, the chain's sales fell by half in the San José area where the incident was reported. Wendy's brand and reputation were at risk, until the claim was exposed as a hoax in late April and the company, operator of America's third-biggest hamburger chain, was vindicated.

Yet the share price of Wendy's International, the parent company, rose steadily through March and April, despite the finger furore and downgrades from analysts. One reason was heavy buying by hedge funds, led by Pershing Square Capital. This week Pershing made its intentions public, saying that it was worried by market rumours that Wendy's might soon buy more fast-food brands, and arguing that the firm should be selling assets instead.

Pershing wants Wendy's to spin off its chain of coffee and doughnut shops, called Tim Hortons, which has a 70% share of the Canadian market. It says that Wendy's should also sell to franchisees almost all of the fast-food restaurants that it owns itself and use the money to buy back shares. Wendy's owns about 20% of the 6,700 restaurants carrying its brand (the rest are already franchised). That could boost Wendy's market capitalisation to $8.3 billion, Pershing says, from $5.7 billion now.

Wendy's declines to comment on these proposals. Fidelity, a mutual-fund group, said this week that it had been selling shares in Wendy's. But Pershing's approach indicates rising pressure on American restaurant companies to perform, at a time when the industry's growth prospects look increasingly tough.

The hit on customers' wallets from higher petrol prices and rising interest rates will probably mean that year-on-year sales growth across the American restaurant industry slows to just 1% by the fourth quarter of 2005, down from a five-year historic average of 5.6%, say UBS, an investment bank, and Global Insight, a forecasting group. Looking further ahead, says UBS's David Palmer, the industry may have to stop relying on most of the long-term trends that were behind much of its recent growth.

Three-quarters of Americans already live within three miles of a McDonald's restaurant, leaving little scope for green-field growth. Obesity is a growing issue in America, and with it the threat of liability lawsuits against big restaurant chains and, perhaps, legal limits on advertising. This week America's biggest food trade group, the Grocery Manufacturers' Association, was said to be preparing tougher guidelines on the marketing of food to children, in the hope of staving off statutory controls. Home cooking may also be making a comeback, helped by two factors. The percentage of women joining America's workforce may have peaked, and supermarket chains such as Wal-Mart have been forcing down retail food prices.

Expansion overseas is one option for American restaurant chains. Burger King, the privately owned number two hamburger chain, opened its first outlet in China last month, apparently aiming to maintain strong growth ahead of an initial public offering next year. McDonald's has 600 outlets in China and plans 400 more.

But at home, the future seems to hold only an ever more competitive and cost-conscious restaurant industry. Fast-food chains are trying to poach customers from “casual dining” chains (such as Applebee's Neighborhood Grill), while those chains are squeezing out independent restaurants unable to compete on cost or in marketing clout. Business conditions, not severed fingers, are the real threat to the weaker firms in the restaurant business.

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Market research

A double dose of data

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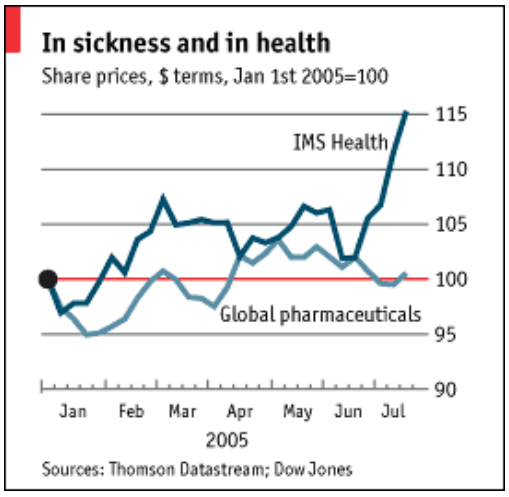
Market research has become big business, as a merger shows



WHILE many big pharmaceutical firms are ailing, IMS Health, which measures the industry's vital statistics, is in great shape (see chart). IMS is the leading supplier of research on the world's $550 billion prescription-drug market, tracking everything from broad industry trends to how many prescriptions for a particular drug a particular doctor in America wrote last week. Such is IMS's dominance that, in 2000, the firm was hauled before the European Commission's competition authorities for alleged abuse of its market position. The firm eventually prevailed over the rival that had lodged the complaint.

With $1.6 billion in revenues last year, IMS's dominant market position has made it an attractive takeover target. On July 11th, VNU, a Dutch market-research firm, made its move, announcing its acquisition of IMS for €5.8 billion ($7 billion).

VNU, which earned a profit of €3.8 billion in 2004 from a portfolio of businesses including AC Nielsen, a consumer-market researcher, and Nielsen Media Research, a TV ratings group, has been flush with cash following the sale of its telephone directories business in 2004. Buying IMS Health will help the Dutch firm to diversify out of the cyclical, and currently sluggish, world of fast-moving consumer goods into the more lucrative field of health-care information. Moreover, IMS Health has successfully added a consulting arm to its information services, expertise which VNU is keen to draw upon in its consumer-goods and media businesses.

For IMS, the deal will move it closer to the consumer. The health-care firm is a leader in gathering information from physicians, pharmacies and pillmakers, but data on pill takers is trickier to get. Understanding consumers' purchasing decisions is ever more important in pharmaceuticals, as patients are expected to shoulder more of the cost of drugs, particularly in America, and a growing number of drugs are moving from prescription-only to over-the-counter, which requires a very different sort of marketing.

VNU's strengths in acquiring and analysing information on customer behaviour in dynamic markets for consumer goods may come in handy for IMS. And VNU's knowledge of communications media could also help IMS to build its data and consulting services in direct-to-consumer advertising of drugs. The

health-care firm may also move into the lucrative field of continuing medical education for doctors, on the back of VNU's trade shows and conferences business. But whether such synergies, as well as projected €85m annual cost savings by 2008, are worth the hefty 16% premium that VNU is offering for IMS shares remains to be seen.

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Rolls-Royce

Whirring, not purring

Jul 14th 2005
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Rolls-Royce used to be a fragile British treasure. Now it is a robust global business

AFP

Engine of growth

THE name still conjures up an image of the quintessentially British car: old-fashioned; elitist; expensive; and with an engine so silky-smooth that it purrs. But Rolls-Royce cars are now made by a German carmaker, BMW, while Rolls-Royce plc makes jet engines, gas-turbine generators and powerful marine motors, and is expected to report half-year pre-tax profits of over £200m ($380m) later this month, an impressive 35% up on the comparable figure in 2004. The British government used to be its biggest customer, buying its jet engines for Royal Air Force planes and its nuclear power plants for Royal Navy submarines. But nowadays the Pentagon is its biggest defence customer. Four-fifths of Rolls-Royce's sales are abroad, where it competes—with growing success—against, among others, jet engines made by General Electric (GE), a firm with sales of $150 billion, over ten times its size.

Rolls-Royce has reinvented itself more than once. Like other icons of Britain's old manufacturing base, such as British Aerospace, Racal and ICI, it has had to adjust to a global marketplace. This has left it focused on four sectors—civil, military, marine and energy—in each of which it is among the world's top three competitors.

The firm reached its nadir in 1971, when—although still the ultimate symbol of British manufacturing prowess—it provoked a national crisis by running out of cash. It was rescued by being nationalised by a Conservative government. When Margaret Thatcher privatised it 16 years later, an unexciting future was predicted in a market then dominated by GE and Pratt & Whitney. Its engines were then used by only a handful of airlines.

For the past 15 years, the core of the firm's strategy has been to increase the number of its engines powering the world's civil jets. Now 42 of the top 50 airlines use Rolls-Royce engines. The firm's shares are at a peak, its four businesses are all profitable and financial markets are beginning to overcome their anxieties about a company that relies on long-term leases for much of its revenue and profit.

Servicing its engines and supplying spare parts are now recognised for the strong, predictable sources of revenue they are. Gross margins (at around 30%) are better on the service side of the business. So the company has cut prices aggressively to increase engine sales.

Growth in civil business was doubly important because Rolls-Royce was badly hit by the fall of the Soviet Union—at which time defence accounted for 60% of its revenues. Worse for the firm, the “peace dividend” fall in defence spending coincided with a worldwide slump in civil aviation and a decision by an old customer, British Airways, to equip its new Boeing 777 wide-body planes with GE engines. That taught Rolls-Royce that it would have to play hard to get its engines on the wings of big airlines around the world.

Changing gear

Rolls-Royce's managers used to be known mostly for their enthusiasm for engineering. This changed when a banker (now Sir) John Rose, became chief executive in 1996. He shook up the firm, continuing its heavy expenditure on investment and R&D, but streamlining its activities into today's four market-oriented businesses.

He developed a canny acquisition strategy to cement the firm's top-three position in its chosen markets. This had started a year earlier when Rolls-Royce bought Allison, an American maker of small jet engines, mostly for corporate jets. This gave the company a significant presence in America—essential for any firm seeking to increase sales to the Pentagon. But nonetheless the deal was initially controversial, in part because of the previous management's unhappy acquisition record. Their purchase of the large turbine-generator business of Parsons in the north-east of England had proved a flop, and Sir John quickly sold it off in bits.

“Acquisitions have to give you a new route to market, a new product, or a new technology,” says Sir John. He bought Vickers, a struggling arms-and-marine business, in 1999, keeping only its marine operations. As a result, Rolls-Royce could bolt its marine-propulsion systems on to the back of “marinised” versions of big-jet aircraft engines; at a stroke, it was able to supply a complete propulsion system for warships and big merchant ships. The US Navy's proposed advanced DD(X) destroyer and America's new high-speed coastal-defence vessels are being developed with marine versions of Rolls-Royce jet engines.

Defence now generates less than one-quarter of Rolls-Royce's revenues, but America (the biggest defence market by far) is a big customer, using its jet engines on today's jump-jet aircraft and planning to do so on the Lockheed Martin F-35 fighter, which promises to be the subject of the biggest contract in military history.

Civil- and military-aircraft engines will remain the bulk of Rolls-Royce's business for years, but its energy and marine operations may have the best growth prospects. The world needs ever more tankers to transport oil and gas over long distances, and demand is growing for economical but high-power marine gas turbines to drive them, in place of the venerable diesel-electric hybrid motors that have dominated until now. Rolls-Royce is moving the headquarters of its marine business to Shanghai, because China, South Korea and Japan are where most of the world's merchant ships are now built.

Where oil and gas is transported not by tanker but by ever longer pipelines, such as from central Asian fields to the Mediterranean and the Black Sea, there is a market for powerful compression pumps. In 1999, Rolls-Royce bought Coopers, another specialist company, enabling it to combine its compressors with gas turbines in order to push oil and gas along pipelines.

Rolls-Royce also has a growing energy division selling small gas turbine generators—an especially promising business as small-scale power generation is becoming fashionable. Rolls-Royce has also teamed up with partners in Singapore to develop solid oxide fuel-cell systems for micro-power generation. Much of the development work on the ceramics for this will be done with the Singaporean partners.

Rolls-Royce has long been the gold standard for British engineering. But 60% of the $4.5 billion that the firm has spent on R&D in the past five years has been outside Britain. Its main customers and, increasingly, its operations are also overseas. In short, Rolls-Royce has regained its position as a British champion by turning itself into a world-class, truly global company.

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Face value

India's high-flying liquor king

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From The Economist print edition

Landov

Can Vijay Mallya repeat his success in the drinks market in the air?

POPULARLY known as India's "liquor king", Vijay Mallya, the 49-year-old chairman of Bangalore-based United Breweries (UB), is famous for his racy, party-loving lifestyle. He is also famed for his (not unconnected) skill at managing his relationships with government—a valuable asset in a country where state governments control the taxation and wholesale distribution of alcohol and even, in some cases, its retailing.

Now Mr Mallya is putting these skills to work as he launches Kingfisher Airlines—named after UB's bestselling beer, a global curry-house favourite—not least by hiring government-owned Indian Airlines (IA) to carry out Kingfisher's ground handling and maintenance activities. That has allowed Mr Mallya to get the airline off the ground more quickly and at far less cost than if he had done it alone—a crucial advantage in what, following recent deregulation, has become a highly competitive domestic civil-aviation market. So too is the access he has secured for Kingfisher to IA's spacious new terminals in Delhi and Mumbai, while passengers of other private airlines, such as Jet Airways and Air Sahara (both of which are said to have good government connections, though Mr Mallya used his better this time) are crowded into old, cramped and unpleasantly hot buildings.

Above all, Mr Mallya has turned a potential enemy, India's powerful aviation bureaucracy, into an ally. Envious competitors wonder aloud how he achieved such a remarkable thing. Mr Mallya is certainly not shy about his effectiveness. "I have to manage governments in each state (for liquor sales), so I'm quite good at it," he says. He has apparently become even better since he was elected to India's upper house of Parliament in 2002 (though last year he did poorly in state assembly elections in his home state of Karnataka).

Mr Mallya's prefered title is "king of good times", which he says links his personality with his liquor business—and now with flying. His brand, he says, is "all about lifestyle, fun and aeroplanes—a complete Kingfisher experience"—though, owing to a regrettable failure of his powers, he has not yet persuaded the government to let him break India's dry domestic in-flight rules by serving beer on his planes.

Mr Mallya inherited the UB group on the death of his father in 1983. He was 28 and, as he puts it, "lived

my age"—driving fast cars, breeding and racing horses, and partying. He is still constantly on the move, rarely staying in one place for even a week as he shuttles in his fleet of private jets between his five homes in India and others abroad, including in San Francisco where his wife and children live. He is often accused of having a short attention span. Early in his career he seemed set on fulfilling his critics' prediction that he would squander his inheritance, as he expensively moved into chemicals and fertilisers, bought a stake in the *Asian Age*, a daily paper, ran two glossy magazines, and dabbled in filmmaking. In America, he started a software firm, and bought some local papers, breweries and a vineyard.

Nowadays, as well as overseeing his group's profitable stake in the Indian end of Aventis, a pharmaceutical firm, Mr Mallya has, until his foray into air travel, mostly focused on expanding UB's core drinks business. In March, after trying for 20 years, he bought a Kolkata-based drinks firm, Shaw Wallace. This made UB not only the market leader in India but also the world's second-largest liquor company by volume after Diageo (though Pernod Ricard's purchase of Allied Domecq will soon push it back to third). UB accounts for 52% of beer sales in India (up from 18% in 1983)—Kingfisher beer alone has a market share of nearly 30%. Mr Mallya's family owns 55% of the top UB group company, United Breweries Holdings. A separate firm, United Spirits, combining three non-beer businesses, is to be spun off later this year as Mr Mallya seeks to free up some cash, perhaps by attracting a private-equity investor.

Some rival airlines have questioned whether Mr Mallya is serious about his new airline, or is simply using it as a publicity-seeking diversion. His initial service consists of only two Airbus A320s flying from his home city of Bangalore. But he confounded sceptics last month at the Paris Air Show when he placed a $3 billion order—and, he says, paid the deposits—for five of Airbus's new 555-seater A380 super-jumbos, five A-350s and five A330s, for delivery by 2012.

Flights of fancy?

But success may not come easily, even in a deregulated market currently growing by 20% a year. Mr Mallya has already been taken on in a price war by Jet Airways, which has an award-winning fleet of 50 aircraft, with a load factor of around 70%, and is starting to fly on international routes. Also in the dogfight is Air Deccan, a two-year-old low-cost airline with 19 aircraft and, it claims, 87% occupancy—although it is aiming down-market of Kingfisher, saying that it is "competing with trains, not other airlines". Currently, India's domestic airlines carry fewer than 20m passengers a year, whilst over 15m people travel by train every day. Other competitors include Air Sahara, smaller than Jet but, it said this week, soon to begin joint marketing with British Airways and American Airlines.

More ominously, InterGlobe Enterprises, a Delhi-based travel firm that represents various airlines, including Virgin Atlantic, recently announced orders for 100 Airbus A320s. This prompted rumours—which Rahul Bhatia, InterGlobe's boss, calls "premature"—that it is betting on the government lifting restrictions on foreign investment, which would allow Virgin to form a joint-venture with a domestic Indian airline. Mr Mallya, a man who clearly loves collecting nicknames, was delighted when an Airbus executive recently dubbed him the "Richard Branson of India". He might not be so happy about having to compete head-to-head with Sir Richard himself.

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Enterprise computing

Business's digital black cloud

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From The Economist print edition

New, faster computer chips are challenging the traditional structure of the huge business-software industry

FOR the past 40 years, companies around the world have grown accustomed to a doubling in computing power every 18 months to two years—fulfilling a remarkable forecast made in 1965 by Gordon Moore, one of the founders of Intel, a semiconductor powerhouse based in Silicon Valley. As their businesses have expanded, managers have been able to sleep easy in the knowledge that next year's computers would be more than able to keep pace with their needs and probably cost no more than last year's models. Alternatively, slowpokes with steady workloads have been able to replace ageing computers with flashier models costing half as much. The declining real cost of computing has been an economic boon.

Even as millions more transistors are crammed on to slivers of silicon, Moore's law continues to deliver the goods. But the tricks chipmakers such as Intel and AMD are exploiting to achieve this miracle are changing the whole approach to enterprise computing. In the process they are unleashing powerful disruptive forces. New chip architecture is allowing them to roll out ever more heavy-duty hardware at competitive prices.

The real losers in the pending upheaval could well be software suppliers. Firms such as Oracle, SAP and IBM, whose industrial-strength programs are the bedrock of business, could be badly bruised in the process. But inevitably, end-users—companies big and small that depend on enterprise software to do their various business transactions—are going to be feeling pressure as well. Over the coming year, they will have to keep their wits about them if they are to prevent their licensing costs from escalating out of control.

For many, the choice could come down starkly to accepting costlier new ways of being billed for the corporate software they depend upon for their livelihoods, or biting the bullet and switching to “open source” programs that may be free to license but have plenty of hidden costs.

The current brouhaha over software licensing has been set off by the arrival this month of large quantities of chips containing two central-processing brains (or “cores”) on the same device. Chipmakers have known for some time that merely cranking up the internal speed of their computational engines was delivering diminishing returns.

Today, the co-ordinating internal clocks on some of the fastest chips beat at four billion times a second (4GHz in geek-speak). This furious internal activity gobbles up electrical power. In turn, that makes the chips scorching hot. Cooling them down so they can do their job properly has become a costly nightmare, especially when such chips are used in cheap, but poorly ventilated, “blade” computers (so-called because they are wafer-thin and plugged together in racks like packs of disposable razor

blades).

The answer has been to put two or more smaller cores on a single chip. By sharing the workload, the separate cores produce less heat. But being on the same tiny piece of silicon, they still have the speed advantages that come from having all the core's ancillary components within easy reach on the same device.

Actually, dual-core processing is nothing new. IBM and Sun Microsystems have been supplying processors with two or more cores built into them for several years. But these have been thoroughbred chips for powerful Unix workstations used by scientists and engineers for cutting-edge research.

The difference today is that the dual-core approach is now being applied to the workaday processors that run the vast majority of Microsoft Windows, Linux and other popular programs designed to exploit the internal instructions used by Intel's ubiquitous Pentium processor. Such chips power not only hundreds of millions of personal computers, but also the tens of thousands of back-office servers that dish out data over computer networks to employees throughout an enterprise. It is the latter that are the mainstay of companies' IT departments everywhere.

In April, Intel and AMD announced separately that they would be delivering dual-core versions of their high-end processors later this year. AMD has been the first to ramp up production of its new device and has now started delivering its dual-core Opteron processor in commercial quantities for $2,650 apiece. Intel is expected to start shipping dual-core versions of its Xeon and Itanium server chips in volume later this year. Meanwhile, the leading server manufacturers, including Hewlett-Packard, Sun Microsystems and IBM, have begun taking orders for their new dual-core computer systems.

With the wholesale switch to dual-core processing, some software firms feel they are about to be short-changed. If two cores on a single chip can do twice the work of a single processor, they argue, then customers paying licence fees based on the number of processors running their software (one of the most common forms of software licensing) will be getting a free ride on half the new cores being deployed. Actually, because of internal losses and design restrictions, dual-core chips tend to do the work of anything from 1.3-1.8 comparable single-core processors, depending on the applications they are running. But the free-ride argument still stands.

The core of the matter

As the dominant supplier of database software, Oracle has expressed its concern about the shift to multicore processing and is adamant: customers will be charged by the core rather than the processor. The firm actually uses two different forms of software licence. One is based on named users and is for customers with a more or less fixed number of defined users. The other is for firms with populations of users that are hard to define, and is based on the number of processors within an enterprise that are running Oracle software. Customers can choose one or the other.

Behind the scenes, however, Oracle is actually more flexible than the image it presents. In the past it has used other means to price its software—concurrent user, named user on a single server, named user on multiple servers, processor, you name it. Some years ago, when Oracle based its pricing on the performance of the underlying hardware, licensing fees leapt in line with soaring chip speed. Faced with a customer rebellion, Oracle dropped its power-based metric in favour of a simple processor-based policy. “We've found that our customers are more satisfied when they can easily identify and predict what their licensing fees will be,” says Jacqueline Woods, vice-president of global pricing and licensing strategy.

That is the official line. But when customers complain to Oracle's sales representatives about the firm's aggressive pricing, they are quietly advised to talk directly to customer support. The company does not admit to any backdoor deals, saying only that it is “committed to providing customers with simple, flexible and transparent pricing.”

IBM has been even more circumspect, announcing that its software licences for computers running single-core or dual-core versions of the Opteron or Xeon processors will cost the same. But IBM has yet to announce what its licensing policy will be for running its big software suites, such as DB2 and WebSphere, on computers powered by Intel's more advanced Itanium multicore processor. Even so, the announcement on Opteron and Xeon licensing was a big turnaround for the firm: it has charged customers on a per-core basis for running its software on the powerful dual-core Power5 processor it makes in house.

IBM says the boost in power that customers will get from the new dual-core chips from AMD and Intel will be only incremental. Its own dual-core Power5 is a third-generation processor for top-of-the-range servers, which deliver double the value in the highly tuned applications they are bought for. But insiders suspect that IBM's change of heart—at least where the more popular dual-core processors from AMD and Intel are concerned—was a ploy to cast Oracle in an unfavourable light, and try to steal market share.

Another software firm that is seeking to capitalise on the computer industry's current turmoil is Microsoft. When the licensing issue was first broached publicly last October, Microsoft came out uncharacteristically on the side of customers. In a move calculated to win users over, the Redmond-based company announced that it would be licensing its server software on a per-processor basis. That meant only one Microsoft licence would be needed for any dual-core Opteron or Xeon server. The same would apply to Itanium systems when they arrived, too.

Altruism played no part in Microsoft's commitment to processor-based licensing. By ensuring that customers using its Windows Server family of products (such as Microsoft SQL and Microsoft BizTalk) would not have to pay any more when they upgraded to multicore processors, Microsoft very effectively seized at least the low ground in ongoing debates about total cost of ownership (TCO) and return on investment (ROI) of computer purchases. (These abbreviations have become standard parlance among IT managers since the bursting of the dotcom bubble.)

By addressing these concerns with a cheap and easy route to multicore computing, Microsoft is positioning itself to grab more of the lucrative market for enterprise software, where, unlike the desktop market, it has faced tough competitors with beefier products and well-entrenched positions in customers' premises. But if they do not respond in kind, Oracle, SAP, IBM, BEA, Siebel and Veritas could find themselves losing out to Microsoft's budding family of server software and its processor-based licensing. On top of that, users will not be amused by software suppliers that raise licensing fees for applications that run on top of a Windows server, especially when Microsoft has not changed the licence for the underlying platform.

Hard to be soft

Users have lots of other grouses. With some justification, they argue that software suppliers—at least the vast majority that license their products on a user or processor basis—did not raise prices during the megahertz race when computers became faster and more efficient. Likewise, they say, dual-core architecture is just another way for the hardware-makers to boost the speed of their machines, and should thus be treated the same as raising clock speed.

In short, users feel it is grossly unfair for software firms to charge more for improvements that stem entirely from buying better hardware. It is not as though IBM, Oracle and others have had to rewrite their big database or transaction programs so they can run on the new processors. In fact, the software will not even notice the difference. Some customers have likened Oracle's insistence on core-based licensing to a form of double taxation.

But users admit that change is probably inevitable. Dual-core Opterons and Xeons are only the beginning. Computers with processors that use four or more Pentium-like cores will start arriving in 2006. And industry watchers expect the trend to ever greater numbers of cores to accelerate. For instance, the New York office of Ogilvy & Mather, an advertising agency, is currently testing a computer appliance built by a small computer-maker called Azul Systems that uses 24 cores per chip.

Complicating matters even further, servers these days tend to have more than one processor inside them. The wholesale endorsement of Linux, the open-source operating system for Pentium-style processors, by the world's leading hardware and software firms (with the exception of Microsoft) has turned it into a formidable platform for enterprise servers capable of ganging dozens, even hundreds, of internal processors together into a giant “symmetric multiprocessing” unit that behaves as a single entity. Add multicores to multiprocessors, and today's software licensing policies quickly become untenable.

The software industry's licensing dilemma does not even end there. There are two other developments in computer design that could cause licensing anarchy. One is known as “partitioning and virtualisation”. Broadly, this involves using a single computer to create the illusion of having multiple computers, each with its own operating system such as Unix, Linux, NetWare or Windows; and each acting as if it had exclusive access to all the real computer's resources (eg, memory, drives, network adapters, communications ports, etc), without regard for all the other operating systems installed that think

likewise.

Slice and dice

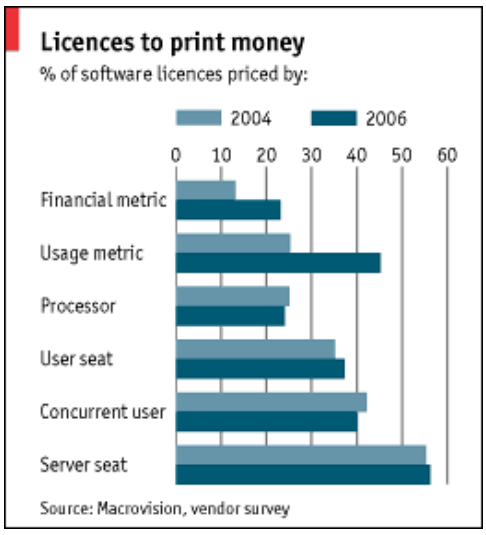
Virtualisation is actually an old computer trick, stemming from IBM's mainframe computers of the 1970s. It resurfaced in the late 1990s thanks to some nifty software developed by a company called VMware that lets users slice up a Pentium-style computer as if it were many different machines running different operating systems and software. That started off as being a handy way for IT managers to test new software configurations before installing them company-wide. By 2002, however, customers had began to realise that a lot of the servers they had hurriedly acquired during the great Y2K panic at the turn of the millennium "were running with no more than 5% to 10% utilisation," says Raghu Raghuram, senior director for strategy and market development at VMware.

Today, VMware's ESX and GSX servers and Microsoft's Virtual Server are being used to get more out of users' hardware investments, by allowing existing machines to run best-of-breed software, no matter what operating system it was designed for. While virtualisation may be great for hardware ROI, it wreaks havoc on software licensing policies.

Then there is the industry-wide trend to "rapid provisioning". This is a way of providing capacity-on-demand, explains Amy Konary, director of software pricing and licensing at IDC, a computer consultancy. The idea is to make whole computers, parts of hard-drives (ie, partitions) or even individual cores instantly available, along with an operating system and entire stack of software applications, for a particular task that has cropped up and needs urgent attention.

Hewlett-Packard and IBM have developed new types of licences that allow some software to be used in such an intermittent manner. But the rest of the industry is still agonising over how to license rapidly provisioned machines. One thing is for sure, says Ms Konary: users are unlikely to accept any requirement that makes them pay for a full software licence for such momentary use.

Clearly, the days of licensing software on a simple one licence per installation or on a straight per-user or per-processor basis are ending. A recent survey* conducted by a handful of software firms and trade associations in Silicon Valley found that while software suppliers were pushing for licensing models based on annual subscriptions, companies overwhelmingly preferred single, one-time payment methods, be they on a per-user or per-processor basis (see chart). This was surprising because users have been decrying the high up-front cost of software and have been urging suppliers to provide much better value for money.



But given all the imponderables, it has become extremely hard, if not impossible, to quantify what the value of any given piece of software is. What is known is that negotiating licences is not a trivial exercise. John Fowler, executive vice-president of Sun's network systems group, finds that companies spend typically between eight and 12 weeks planning and discussing software licences with their suppliers. In its bid to answer the value conundrum, Mr Fowler's firm has adopted the simplest of financial metrics. It charges firms a straight $140 times the number of employees on the customer's payroll for using its proprietary software. Why $140? Because it seems to correlate with the price that the company and its customers think is good value for having no hassles. The simple subscription gives customers the unrestricted right to run Sun's software on as many computers, by as many people, and as often, as they like.

Others think that a better way of delivering value is to adopt some kind of utility model for software pricing—allowing users to pay only for what they use. Macrovision likens computer upgrades to a city upgrading its water supply system (hardware) to allow residents to use more water (software). The question, then, is should residents who do not want to use more water pay more for at least having the opportunity to do so? Opinion is divided.

The maintenance model

But if Margaret Lewis, AMD's senior software strategist, is right, software pricing could be in for some radical rethinking. In her view, the open-source model of software licensing looks like being surprisingly

attractive. This involves software firms licensing their products for nothing, while earning their keep from maintenance and support. Software firms such as Red Hat, Novell, Mandriva and a host of other Linux distributors already make their living that way.

Indeed, more and more suppliers of proprietary software are beginning to think along similar lines. Sun has recently made its flagship product, the rock-solid Solaris operating system, available with a form of open-source licence that permits it to be downloaded free of charge. Meanwhile, IBM has re-invented itself as a successful service company thanks to the way it has embraced open-source Linux and J2EE (Java 2 Enterprise Edition).

The clincher is that if software firms continue to think they can cash in on every new increase in computer performance, they will only encourage more and more customers to defect. And today, unlike a decade ago, open-source software has become just too good to be ignored. MySQL or PostgreSQL, two powerful open-source databases running on Linux, have become attractive alternatives to commercial products such as Oracle 9 or DB2 running on some proprietary flavour of Unix from Hewlett-Packard, Sun or IBM. The same goes for open-source servers such as Apache, JBoss and Samba.

Today, customers have a plethora of alternatives that should give enterprise-software firms pause for thought. Finally, of course, there is Microsoft. No one in the enterprise-software business should underestimate its determination to own their market as well as the desktop business it already dominates.

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* “Key trends in software pricing and licensing”, available from SoftSummit (

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The European Central Bank

Haughty indifference, or masterly inactivity?

Jul 14th 2005
From The Economist print edition

Monetary policy in the euro area has been looser than critics think

Get article background

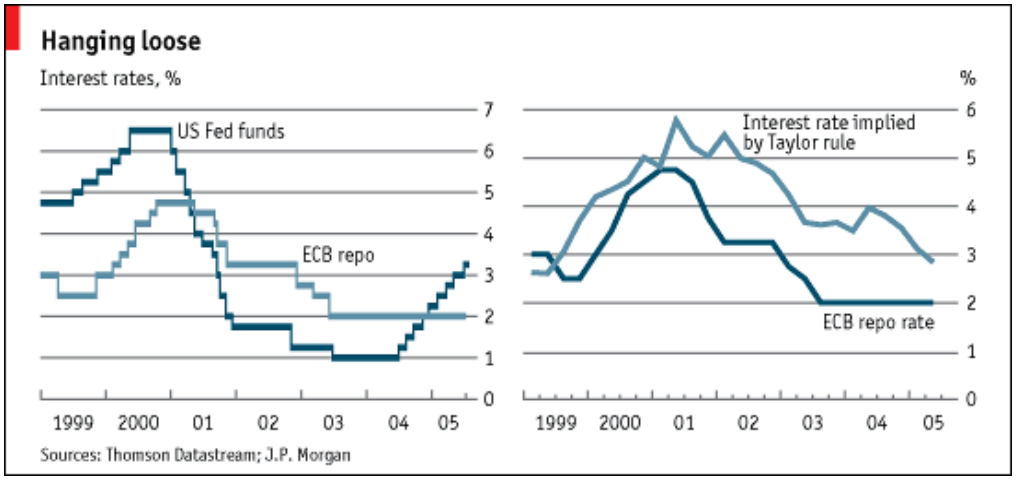
TWICE a month the governing council of the European Central Bank (ECB) meets on the 36th floor of the Eurotower in Frankfurt. The lifts must be permanently out of order, leaving members so out of breath by the time they reach the boardroom that they can no longer think straight. What other explanation can there be for why the bank has left interest rates stuck at 2% for no less than 25 months?

The bank's many critics claim that the euro area's economies are being choked by an excessively tight monetary policy, and that the case for lower interest rates is overwhelming. It has become conventional wisdom that the ECB is peopled by inflation nutters who couldn't care less about economic growth. Yet a look at the facts reveals that by most measures the ECB's policy has not been overly tight.

It is true that in 2001-03, after stockmarkets slumped, the ECB cut interest rates by less than America's Federal Reserve did (see left-hand chart), but that was partly because American rates started off at a much higher level, and America's inflation rate fell more sharply. Real interest rates in the euro area have been negative or near zero for most of the past two years, their lowest for more than 25 years.

This suggests that policy is fairly loose, as does the growth in the M3 measure of money supply, which has exceeded the ECB's desired range for four years running. The Fed may think that money no longer matters, but the ECB worries that this overhang of liquidity will eventually stimulate inflation or asset-price bubbles. The ECB's critics like to make fun of the prominence it gives to this measure, but, as the Bank for International Settlements argued recently, keeping an eye on money and credit provides a useful check against the build-up of financial excesses.

A widely used test of the tightness of monetary policy is the Taylor rule, which calculates the “correct” interest rate according to the amount of spare capacity in the economy and the deviation of inflation from its desired target. What does it say about interest rates in the euro area? Calculations by David Mackie, of J.P. Morgan, show that virtually throughout the past six years, interest rates in the euro area have been lower than a Taylor rule would have prescribed (see right-hand chart), refuting the popular wisdom that the ECB cares less about growth than does the Fed.



But even if the ECB has not, on average, been as tight as many people think, it has changed interest rates less often than the Fed has, giving the impression of paralysis. One reason why the ECB is less active is that estimates of the output gap in the euro area—the amount of slack in the economy—are subject to much bigger revisions than in America. In late 2000, the OECD reckoned that GDP in the euro area was 0.3% below potential in that year. Now it thinks GDP was 1.6% above potential.

The correct interest rate depends partly on the inflation target; thus another common criticism of the ECB is that its target of "below, but close to, 2%" is too low. Some say that if, like the Bank of England, the ECB had a symmetrical inflation target centred on 2%, it would have been able to loosen the monetary reins. Some go on to argue that the ECB's inflation target should be higher than the Bank of England's, to take account of divergences in inflation rates among the euro area's 12 members and so guard against the risk of deflation in an individual country. Although the ECB's inflation target would be better expressed as a range of 1-3%, in practice it might not make much difference. The ECB has behaved as if 2% were the midpoint not the ceiling: during the past five years inflation has been below 2% in only nine months.

Furthermore, the euro area's official inflation rate may well understate inflation, because the harmonised index of consumer prices, which the ECB tracks, excludes the housing costs of owner-occupiers, a large slice of the cost of living. Calculations by the OECD suggest that if such costs were added in, average inflation in the euro area last year would have been 2.7%, not the published 2.1%.

Monetary conditions in any economy depend not only on short-term interest rates, but also on the exchange rate and long-term bond yields. The ECB probably made a mistake in not cutting interest rates last year to offset the impact of the rising euro, which caused monetary conditions to tighten just as growth stumbled. However, the euro's trade-weighted value has fallen by 5% since the start of this year, taking it below its value when the single currency was launched in 1999.

Bond yields probably have a bigger effect on economic activity in the euro area than short-term interest rates. Over the past year, ten-year government bond yields have also fallen, from 4.3% to 3.2%. Julian Callow, an economist at Barclays Capital, reckons that the combined fall in the euro and long-term bond yields since the start of this year are equivalent (in terms of their impact on GDP) to a cut in short-term interest rates of around one percentage point.

Less compelling

The recent slide in the euro and bond yields may explain why the OECD, which argued that the case for a half-point interest-rate cut was "compelling" in its *Economic Outlook* in May, now seems more relaxed. In its annual survey of the euro area it appears relatively content if rates are held at 2%. But if the euro strengthens and economies remain weak, then the case for a rate cut will gain ground again.

The OECD admits that the ECB's task is made trickier by two obstacles. The first is the stickiness of inflation in the euro area as a result of a lack of competition, especially in services. Inflation falls more slowly in a downturn than in America, reducing the scope for the ECB to cut rates to support the economy. Structural reforms to strengthen competition and reduce price inertia would make monetary policy more effective.

The second obstacle is that monetary policy tends to be a less potent weapon in the euro area than in America or Britain. The transmission mechanism from interest rates to consumer spending is weaker, largely because of less developed and less competitive mortgage markets. In the euro area, it is much harder to turn capital gains into cash by borrowing more as home prices rise or to benefit from falling interest rates by refinancing fixed-rate mortgages, both of which have given a big boost to American household spending. Even though house prices in France, Italy and Spain have risen by more than in the United States, the wealth effect on consumer spending has been smaller (see article). The solution lies not in cutting interest rates further, but in shaking up the over-regulated mortgage market.

The blame for the euro area's feeble growth rate lies mainly with an over-tight fiscal policy and structural rigidities. Adjusting for the economic cycle, fiscal policy has been much tighter in the euro area than in America or Britain, thanks to the stability and growth pact, which forced governments to raise taxes even during a downturn. Many countries are slowly trying to make their labour markets more flexible. The snag is that in the short run reforms that reduce job protection are more likely to depress consumer spending.

So could the ECB not cut interest rates further to cushion economies as reforms are carried out? With inflationary expectations now well anchored just below 2% and the core rate of inflation at 1.6%, there seems little danger of inflation surging out of control. However, the ECB argues that if the lowest real interest rates for a quarter of a century have failed to spur demand, then another half-point cut is unlikely to do the trick. In the next breath officials then add that lower interest rates would risk stoking up household-credit growth, which is already running alarmingly fast. The ECB cannot claim both that interest-rate cuts won't work and that they risk fuelling excessive borrowing.

Here lies the real vulnerability of the ECB: its public communication. Even if monetary policy is not stifling growth, the bank's language constantly gives the impression that policy needs to be tight to guard against the ever-present threat of inflation. If you keep telling people there is nothing you can do to boost growth, it is no wonder that they spend cautiously. It may not be interest rates that the bank urgently needs to change, but its tone.

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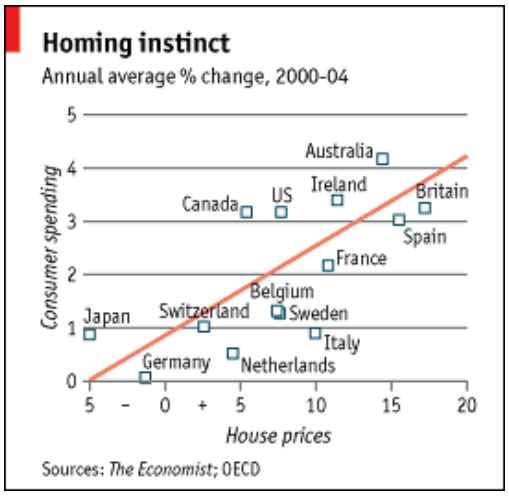
House prices and spending

The weakest link

Jul 14th 2005
From The Economist print edition

The trouble with close relationships



WHY in recent years have consumers in some countries spent as if there is no tomorrow, while others have kept their wallets firmly shut? The chart suggests that house prices have played a big role. It is surely no coincidence that the only two countries where house prices have fallen—Japan and Germany—have seen very weak consumer spending, while those with the strongest housing booms—Britain, Australia and Spain—have binged.

Rising house prices can boost spending in several ways. If homeowners feel wealthier, they spend more. They can turn capital gains into cash by taking out bigger mortgages. Housing booms also encourage higher turnover of properties, and people buy carpets, fridges and so forth for their new homes.

Were house prices to fall, consumer spending would surely falter. Indeed, the regression line on the chart suggests that even if prices were merely flat for a few years, the annual growth in consumer spending in most countries might slow to less than 1%.

The Bank of England argued last year that the link between house prices and consumer spending had broken down in Britain, with less of the capital gains in recent years being spent. If so, then spending might not be hurt by flat or falling prices. Really? Over the past year, as the 12-month increase in house prices has fallen from 20% to 4%, the rate of increase in retail sales has dived from 7.5% to 1.3%.

For any given rise in home prices, the boost to spending tends to be smaller in continental Europe than in America, because it is harder to borrow more to extract equity from one's home. A sharp house-price slowdown will therefore be more painful in the United States.

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Terrorism insurance

Change of calculation

Jul 14th 2005
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The bombings in London may affect an American debate

FROM the point of view of American insurers, the timing of last week's bombings in London was sadly impeccable. The attacks occurred just before the start of congressional debate in Washington, DC, on the extension of a government scheme called TRIA, which offers a backstop to private insurers in the event of a terrorist incident on American soil.

While the human toll in London has been awful, the business effects appear to be fairly slight, in part because of terrorism-risk insurance held by the affected transport companies. This has already influenced the TRIA debate in America, which began committee hearings in both the House of Representatives and the Senate this week. “If it was Madrid in 2004 and London in 2005, why not New York in 2006?” asks Robert Hartwig of the Insurance Information Institute, a trade group.

The debate pits the Bush administration, which wants to shift terrorism-risk coverage on to the private sector, against virtually the entire insurance and reinsurance industries. Michael Oxley and Richard Shelby, who chair the relevant committees in the House and Senate respectively, have voiced their support for the administration's view. But insurers say they can't handle the potential effects of a big attack without government backing. They also argue that terrorism is unlike other hazards, because its potential scope is hard to assess and the risk is determined to a great extent by the government's foreign and military policies. A report by the OECD earlier this month put potential losses from a single large terrorist attack at $50 billion-250 billion. The attacks of September 2001 led to claims of about $32 billion, one-third of which were paid out for “business interruption”.

Aaron Davis of Aon, a large insurance broker, reckons that there is $170 billion of surplus capacity in America's private terrorism-insurance market. TRIA accounts for another $100 billion. If Congress fails to extend the government backing beyond the end of this year, he notes, it would erase the equivalent of 40% of the market's available commercial surplus.

While giants such as Berkshire Hathaway and AIG have shown an appetite for writing terrorism-risk policies and could raise premiums if TRIA is not extended, most insurers do not want additional terrorism risk on their books, partly because of the danger of being downgraded by increasingly vigilant rating agencies. “There has been severe rating-agency pressure on the insurance industry, especially in the last two quarters,” says Mr Davis. Many middle-sized multi-line insurers are becoming more wary of terrorism risks.

Beyond the debate over TRIA, some have argued for a broader discussion of terrorism risk. Experts at Wharton's Centre for Risk Management and Decision Processes, for instance, have called for a national commission on terrorism-risk coverage. As the London bombings made clear, the subject is likely to remain topical for a long time to come.

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The London Stock Exchange

Hard to get

Jul 14th 2005
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Still single, and happy that way

DESPITE the stifling summer heat in the centuries-old meeting hall, officials from the London Stock Exchange (LSE) were decidedly cool in assessing merger prospects at their company's annual general meeting on July 13th. Continental suitors made their interest known months ago, but as far as the LSE's bosses are concerned, they can go on waiting. A strong set of financial results has done the LSE's self-confidence no harm at all.

Chris Gibson-Smith, the exchange's chairman, spoke of “a strong independent strategy” and declared that the LSE “is not up for sale.” Whether it can stay single, however, following last December's unsolicited bids by Frankfurt's Deutsche Börse and Euronext, based in Paris, remains to be seen. Britain's Competition Commission is due to report by the end of the month on its review of the two offers.

Technically, both are still alive, despite a revolt by Deutsche Börse shareholders against their company's bid that ousted its feisty boss, Werner Seifert. The Germans' initial bid of £5.30 (then $10.18) a share last December was rejected as too low. Euronext, meanwhile, is likely to have restrictions placed on it by the British authorities, should it proceed with a formal offer.

Many wonder if the LSE will hold out for a price too dear for Euronext's shareholders. “We're interested in the right transaction at the right price, nothing less,” said Clara Furse, the LSE's chief executive, to *The Economist* after this week's meeting. Dismissing suggestions that the LSE was talking up its own share price (it closed at a shade over £5.00 on July 13th), Ms Furse pointed to recent results: turnover increased by 13% in the quarter to June 30th, and lucrative new flotations (including many from foreign companies) hit their highest level in four years last month. The numbers emboldened Mr Gibson-Smith to remind shareholders that the LSE is Europe's largest stock exchange by value traded—“more than twice that of Euronext, our nearest European rival.” However, Euronext, like Deutsche Börse, has a considerably larger market capitalisation.

The Euronext camp, which sounded rather combative when the Germans first made a move, is now more cautious. “All the previous deals Euronext has done have been on the basis of people coming together,” says an adviser to the Paris-based exchange. “We're not going to force a deal.” Substantive talks with the LSE will not resume until after the competition authorities make their report, but Euronext is still touting the benefits it could offer the London exchange. These, it says, include access to the continental European cash equities market, a window on the fixed-income market, and the chance to “bring Liffe [a derivatives exchange owned by Euronext] back to London.”

Meanwhile, there are tantalising rumours of a suitor from across the Atlantic. The LSE declined to comment on talks with prospective American partners, but when asked to explain the argument in favour of such a tie-up, Ms Furse was quick to note the appeal of “a global exchange”. John Thain, head of the New York Stock Exchange, is preoccupied with a domestic merger. The Chicago Mercantile Exchange is another successful big American exchange whose name has cropped up—even though it is a pure derivatives exchange, with no cash equities business. It has global ambitions and the funds to match. So whether the LSE's fate will be settled in Europe or across the Atlantic is not yet clear. What is clear is that the Europeans would be wise to keep their eye on the bigger global game.

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The Philippines

Mess in Manila

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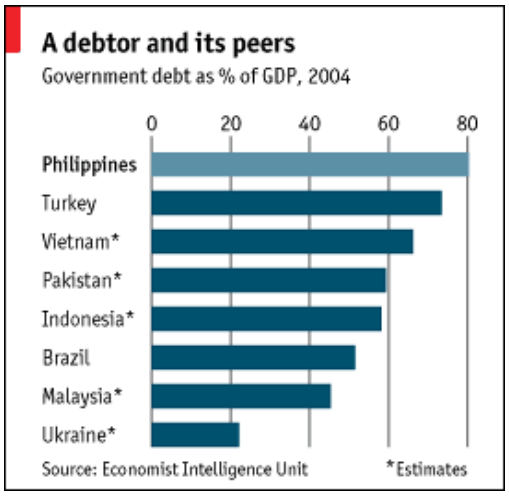
The Philippines' latest political crisis threatens to turn into a fiscal one



ONCE more, the Philippines' chaotic politics is causing trouble for the economy. On July 11th, Standard & Poor's and Fitch, two of the three big international credit-rating agencies, revised their outlook for the country's sovereign debt from stable to negative, the first step to a formal downgrade. The third, Moody's, followed two days later. The agencies cited allegations that the president, Gloria Macapagal Arroyo, had rigged votes in last year's elections; the Supreme Court's decision to freeze the government's main revenue-raising measure on July 1st; and the resignation of Mrs Arroyo's entire economic team (although she appointed a new finance secretary on July 12th).

Such events would be damaging in most emerging markets. In the Philippines, they are all the more troubling, given the fragility of the country's public finances. The economy is balanced precariously on a mountain of debt, much of it owed to foreigners. The spreads on Philippine government debt have been widening, and according to GFI Group, an inter-dealer broker, between June 17th and July 11th the price of five-year credit-default swaps—in effect, insurance against default within that period—rose from 378 basis points to 450. Default, says Agost Benard of S&P, is “the question on everyone's mind”.

Economic activity has been pretty resilient: GDP has grown by an average of 4.4% in the past six years. But that counts for little, given the scale of the country's borrowing. The ratio of government debt to GDP is around 80%. Add the borrowing of state firms such as Napocor, a power generator, and the ratio almost reaches 100%. Nearly 50% is denominated in foreign currencies, making the country vulnerable to movements in exchange rates.

That makes the Philippines an extreme case. Countries with the same BB credit rating from S&P, including Brazil, Turkey, Ukraine and Vietnam, have a median ratio of government debt to GDP of 63%. The Philippines' figure is higher even than that of Asian borrowers with a lower, B rating, such as Pakistan and Indonesia (see chart). Nor is it easy to see how the rot can be stopped. The budget deficit may not look huge—3.4% is expected this year—but two-fifths of government revenues are swallowed up by interest payments. Skimping on investment in infrastructure, education and health will crimp future growth.

Restructuring the public finances was precisely the platform on which Mrs Arroyo was re-elected last

year. She had made progress, particularly on improving government revenues, which are a measly 13.2% of GDP. A crackdown on evaders was boosting tax collection. Most important, the president has been trying to push eight revenue-raising measures through Congress. The centrepiece is an increase in value-added tax (VAT), worth up to 1.5% of GDP next year. It is this that the Supreme Court has frozen as “unconstitutional”.

The judges began fresh hearings on July 14th. James McCormack of Fitch warns of an immediate downgrade if the VAT increase is abandoned. Despite assurances from the finance ministry, that could happen. Some observers think that Mrs Arroyo is wary of risking more unpopularity through further reforms.

All this leaves the country vulnerable at a time of slowing global growth, rising interest rates and record oil prices. The government has enough foreign-exchange reserves, and there is no sign yet of capital flight. But fiscal consolidation must continue: the Asian Development Bank pressed the point this week when it said that any new loans it makes will depend on this. The future, though, is worryingly uncertain, whoever is president. As Mr Benard says: “The Philippines is living on borrowed time.”

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Italian banking

On the record

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Mafia infiltration of the banking system

"ENVIRONMENTAL factors" is the term Italian businessmen use to describe the peculiar difficulties of working in Sicily. These have nothing to do with the weather and everything to do with the Mafia, which, say magistrates in Palermo, has almost complete control of the island's economy.

On July 11th, a judge for preliminary investigations ordered the arrest and isolation of three senior officers of the Banca di Credito Cooperativo Sofige Gela (Sofige), a small bank in Gela on the island's southern coast. The three had been under investigation for aiding and abetting the Mafia, and were among ten people whose arrest the prosecutor had requested. One of the other seven was a court-appointed administrator of sequestered Mafia assets.

Investigations began after an inspection by the Bank of Italy two years ago uncovered anomalies at Sofige. The inspectors identified serious organisational weaknesses and found that the bank had failed to maintain its capital ratios. Its biggest loans were to a firm whose assets had been sequestered by the anti-Mafia authorities and which was being managed by the court-appointed administrator. The Bank of Italy's deputy director in Palermo helped the magistrates dig further. "The investigations were difficult and the Bank of Italy's work was crucial," says Nicolo Marino, prosecutor in the case.

An analysis of Sofige's risk position revealed a large group of clients who were linked to the local mafia, called the Stidda. Rivalry between the better-known Cosa Nostra and the Stidda left hundreds dead in the late 1980s and early 1990s, but, says Mr Marino, a peace treaty in Gela means they now share the spoils of crime. Investigators were able to place bugs in the bank. What Sofige's employees said to each other, after magistrates visited last November, made interesting listening. "Do only we have that kind of client?" they asked. "Don't other banks have them? Aren't there other banks more *mafioso* than us?"

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Fund management in Australia

Boutiques' booty

Jul 14th 2005 | SYDNEY
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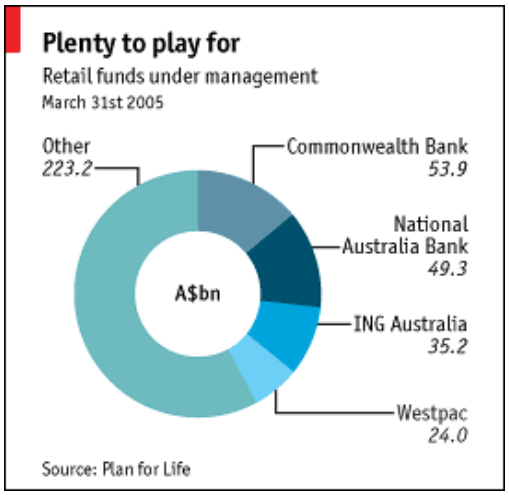
Australian banks' attempt to dominate fund management has met resistance



WHEN Australia's big banks spent A$10 billion ($6 billion) buying the country's largest fund managers early this decade, no one foresaw that their plans would be stymied by a bunch of novice businessmen. Investors posed the usual questions about cost savings and ease of integration and took it as given that wealth management was a fast-growing business.

Fund management is indeed a lucrative field. Juiciest of all are pensions, thanks to a law that requires 9% of employees' salaries be paid into a pension fund. However, the acquisitions by Commonwealth Bank, Westpac Banking Corporation and National Australia Bank have not provided the expected stranglehold on Australia's A$693 billion pension industry. ANZ, the other top bank, has also struggled to coax growth out of its joint-venture fund manager, ING Australia.

Instead, executives at the big banks have watched former colleagues build a cottage fund-management industry with close to A$100 billion under management in around five years. According to Rainmaker Information, a firm of analysts, these new institutions, known as boutiques, could control half of all the money invested in Australian-equity funds within seven years, if they carry on growing at their past pace.

Five years ago, boutiques managed only 2% of Australian-equity funds. They have succeeded because they have delivered higher returns than their rivals. Mercer Investment Consulting, a pension-fund adviser, estimates that they outperformed the median share fund by 1.2 percentage points a year in the five years to May 31st, although there are signs that the gap is narrowing.

Boutique operators—mostly former star fund managers at big companies—tend to cap funds under management at well under A$10 billion, so that they can trade without signalling their deals to other investors. Many also take bigger investment risks than rivals, holding bigger positions in fewer shares. Big institutions' funds tend to mimic the market as a whole rather than try to stand out from the crowd. That is because in the past, investors withdrew money fast if big bets did not pay off; banks' bean-counters did not like such shifts in assets under management.

The boutiques tend to have around eight staff who focus on investment and keep administration costs to

a minimum. The rewards can be handsome—certainly enough to give bank staff an incentive to quit and set up their own businesses. Intech, a pension-fund adviser, points out that a boutique with A$4 billion under management charging fees of 0.4% will have revenue of A$16m a year. After salaries, say A$2m, and overheads of A$1m, the shareholders—typically four or five of them—can split A$13m.

Despite the boutiques' success, the banks are still doing pretty well: the top four control 42% of all the money in retail funds, according to Plan for Life, another analysis firm. Commonwealth Bank is the country's biggest money manager, thanks to its purchase of Colonial in 2000. In the six months to December 31st, fund management accounted for 10% of its net profit. Still, banks and others have been forced to change strategy to deal with their new rivals. Some have struck alliances with boutiques, of which there are about 40 in all, offering their powerful sales channels to sell boutiques' products to small investors.

Commonwealth Bank has been the most aggressive. In May it bought a 30% stake in 452 Capital, a three-year-old boutique with more than A$4 billion under management, from Warwick Negus, one of its founders. The price tag was not disclosed, but industry analysts estimate that the whole of 452 Capital is worth A$100m. It's an old strategy, but may be not a bad one: if you can't beat 'em, buy 'em.

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Morgan Stanley

Nice work if you can lose it

Jul 14th 2005 | NEW YORK
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Want a small fortune? Go to Wall Street. Want a large one? Leave

TOP investment banks like to think of themselves as advisers to chief executives, places to turn when business is bad. Having seen the pay-offs Morgan Stanley has just given its own departing, disparaged leaders, troubled bosses will be keener than ever to seek its wisdom.

Philip Purcell, Morgan Stanley's chief executive until last month, was due $62m on retirement, provided that he wasn't sacked for poor performance or worse. The company's board clearly thought he'd done pretty well (even if many others didn't). It agreed to pay him another $44m, plus administrative support (a nice office and whatnot) and “executive medical benefits”. There will also be $250,000 a year to cover odd expenses that the firm used to pick up and $250,000 a year for charitable contributions (yes, really).

Morgan Stanley says this is consistent with “past practices”. This is lame. Is it true? Even at Morgan Stanley, $100m-plus severance deals are rare. And although departing executives can broadly expect a year or two's salary and bonus, Mr Purcell's deal was inflated by the inclusion of a special stock grant last year. This, says Graef Crystal, a compensation guru, is quite novel.

A better argument for throwing cash at chief executives to go away is that it is quick. It does, however, create perverse incentives. “It says that if you screw up enough, you can get a package like Phil Purcell,” observes Mr Crystal.

Even this argument has its limits when, as at Morgan Stanley, the chief executive is not the only one being paid off. The firm's co-president, Stephen Crawford, was eligible for $32m if he left by early August—which, on July 11th, to the surprise of no one, he chose to do. The chief financial officer, David Sidwell, will receive $21m if he leaves by October 15th. Others are suspected to have similar deals—although they might not be large enough to have a material impact on the firm's results and thus require disclosure. The rest of the bankers, watching potential bonuses being sucked away, wish they were as lucky.

The release of the departure agreements has been a public-relations disaster for Morgan Stanley. The deals were reached at the same time as another, for the hiring of the new chief executive, John Mack, but released only after Mr Mack's return was announced. In retrospect, the firm should have spring-cleaned first. In response to the outcry, Mr Mack said he would forgo guaranteed portions of his own lucrative contract. His pay is thus tied to the lot of the firm. In theory, anyway. Morgan Stanley's board seems to pay its bosses handsomely no matter how well they do.

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Economics focus

Between hype and hope

Jul 14th 2005
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How generous were the aid promises made at Gleneagles? And how new?

THERE are few things a charity likes better than a big cheque. So one might have expected that those behind the campaign to "Make Poverty History" would have welcomed the outcome of the G8 summit in Scotland this month. The Gleneagles communiqué, issued on July 8th, bore a lot of promises to pay and the signatures of eight heads of government. But several charities were reluctant to take it at face value. The Catholic Agency for Overseas Development said that the commitments did not justify the "hope and hype" surrounding the summit. ActionAid bemoaned the "yawning gulf between expectations raised and policy promises delivered." At the summit's closing press conference, Tony Blair, the host, appeared a little exasperated by the grudging tone of some of the questions he had to field.

Some campaigners complain that the Gleneagles "cheque" is postdated. According to the OECD, the promises will add about $50 billion a year to the $79 billion spent on aid by its 22 biggest donors in 2004. Of that $50 billion, Africa will get about $25 billion, roughly doubling what it receives now. But poor countries must wait until 2010 before aid spending reaches these levels. It is, say some campaigners, too little, too late.

Of course, campaigners never say it is too much, too soon. But even if a doubling of aid overnight were feasible, would it be desirable? Mr Blair's Commission for Africa, whose March report backed calls for more money, also recognised the wisdom of an aid build-up that is "measured in pace". The commission hoped to double aid to Africa by 2008, but was prepared to settle for a doubling by 2010. "There is a limit to the number of roads, schools, clinics and water points that can be built and serviced effectively in any one year," it pointed out.

There may even be dangers in premature generosity. In a working paper published on the eve of the Gleneagles summit, Raghuram Rajan and Arvind Subramanian, of the IMF, reawakened fears of so-called "Dutch disease". Under this affliction, a sudden windfall of foreign exchange bids up a country's exchange rate and crowds out its export industries. One way to inoculate a country is to spend aid dollars in ways that help reduce exporters' costs—building roads to the border, for example. But this takes time. "The world is impatient for the poor to develop," they acknowledge, but "development, especially when mandated from the outside, may require patience."

Aid campaigners also complain that the G8 leaders' cheque is written against funds that had already been pledged. Canada's promise to double aid by 2010 was made at the United Nations conference in Monterrey in 2002. In Brussels in May, the European Union's 15 oldest members each agreed to spend at least 0.51% of their national income on aid by 2010, and the EU as a whole set a collective target of 0.56% of their combined income. Taking those vows into account, the OECD calculated that worldwide aid spending in 2010 would be in the region of $125 billion, already $46 billion higher than last year. Only Japan's promise at Gleneagles to spend another $10 billion spread over the next five years caught the OECD's number-crunchers by surprise.

The wild card in all of this has always been America. Unlike other G8 members, it is inherently reluctant to commit fixed shares of its income to aid five or ten years ahead. Rather, its menagerie of aid initiatives, plans and funds must chirp, gobble and squawk each year for whatever crumbs Congress deigns to toss their way.

At Gleneagles, for example, George Bush proposed to double American aid to sub-Saharan Africa (from $3.4 billion in 2004) by 2010. Some of this money will fall due after he leaves office in 2008, and some was already pledged to his emergency plan for AIDS relief. The rest is implied by his long-standing

promise to spend $5 billion a year through the Millennium Challenge Account (MCA), which backs projects devised by poor governments that can demonstrate sound policies and honest administration. But in June the House of Representatives agreed to cough up a mere $1.75 billion for the MCA next year.

Promises, promises

It may be that the Brussels promises are more important than those made at Gleneagles. But both are better seen as two events in a sequence dating back to the Monterrey conference and stretching ahead to another big UN conference in September. Taken together, these events have shown some real ambition. The EU's targets, for example, mean that “giving to foreigners” will be the fastest-growing item of public spending in several member states—at a time when all of the European members of the G8 are nursing big budget deficits. Indeed, some observers worry that even current aid-spending levels will be hard to keep up. The $79 billion spent in 2004 was flattered by the falling dollar (which is now rising) and the large sums America has devoted to the reconstruction of Afghanistan and Iraq.

Recent numbers have also been inflated by what Richard Carey of the OECD calls the “debt relief bubble”. More than a third of the rise in aid between 2001 and 2003 was due to debt relief, and the bubble will inflate further in the next couple of years when donors add the full face-value of debts once owed by Iraq. Of course, the forgiveness of debts that were being serviced is a real cost to the donor. But cancelling debts that were not being collected anyway is not a strenuous form of charity. When the bubble bursts, donors may find giving harder than forgiving.

If nothing else, Gleneagles and the campaign leading up to it have helped to build a vocal, pro-aid constituency of voters in rich countries. It will take all their efforts to hold the G8 leaders to their promises so far, let alone to extract more. But the danger is that the “hype and hope” that motivated those voters will be replaced by deflation and despair now that some aid campaigners are branding Gleneagles a disappointment.

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Space

Winging it

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NASA

The shuttle is soon to return America to human space flight. But it must be grounded quickly to allow for a new generation of vehicle

FOR two and a half years, America's space agency, NASA, has laboured over modifications to its space shuttle. The need for such work became apparent after the final, and fatal, flight of the shuttle *Columbia* in February 2003. It was all supposed to come to fruition on July 13th, when the shuttle *Discovery* was to launch from the Kennedy Space Centre in Florida.

Instead, it was a day of mishaps. First, a falling window cover damaged two heat-resistant tiles. Then the launch had to be postponed when a problem was discovered with a fuel sensor. It served to underscore that this is less the triumphant flight of a phoenix and more a swan-song. Despite all the time and an estimated $1.5 billion spent on her return, in at most five years (and possibly less) the shuttle will retire. She is expensive, doesn't go anywhere other than low Earth orbit and must be recertified in 2010. Her days are numbered.

The only way is up
Modifications to America's space shuttle

Bolt catchers	Catches the explosive bolts that separate rocket boosters from external tank
Lox feedline bellows	Heater, to reduce ice build-up at a fuel-line joint
Bipod ramp heaters	Heater, to reduce ice build-up at an attachment between external tank and orbiter
Wing sensors	22 temperature sensors and 66 accelerometers
Orbital boom	50ft boom with camera and laser to check external skin of orbiter in space
Cameras & tracking	Digital camera on orbiter's underbelly. Photos of external tank at separation. High altitude monitoring at launch and re-entry. New tracking, imaging and analysis

Source: NASA

The efforts of the past 30 months, say those who manage the shuttle, have produced a far safer vehicle. *Discovery* has a redesigned fuel tank, dozens of new sensors and other modifications (see table). Many

of the improvements are designed to reduce the chance of debris striking, or to detect damage when this occurs. Nevertheless, should a puncture be found in the shuttle's thermal protection system during a flight, there are just two alternatives. One is to hole up in the space station and wait for rescue; the other is to use an experimental kit of ablative filler, which will work only on smaller punctures.

So why make all this effort if she is to be retired? It is for one reason: to complete the international space station. Many of the station's components were designed to be launched only on the shuttle—and NASA has commitments with its international partners to take these to the station. Japan, for example, has an agreement with America whereby its experimental module is to be launched by the shuttle in return for Japanese construction of a centrifuge for the station.

Because George Bush is keen for international collaboration on NASA's next grand escapade—revisiting the moon—the agency must at least try to keep these partners happy. This is already difficult, because the station has been beset by delays and changes in design and purpose throughout its chequered history.

To what extent NASA is able to please everyone will depend on how many more shuttle flights there are. Even if the next few go ahead as planned, NASA will almost certainly fly fewer missions than the 28 it had once hoped for. Current speculation ranges from as few as 12 to as many as 20 flights. At present, it is assumed that these will include a mission to service the *Hubble* space telescope, although no decision will be made about this until the shuttle has flown again twice.

Having fewer shuttle flights than originally expected will spell trouble for some parts of the station and will result in what is euphemistically described as “alternative configurations”. But NASA will have to balance what is needed today with what it wants tomorrow. Fewer flights will result in large cost savings (the shuttle absorbs almost a third of NASA's $16 billion annual budget). This money could be spent on accelerating the creation of the shuttle's replacement, the Crew Exploration Vehicle (CEV). This is much on the mind of Mike Griffin, the agency's new administrator.

The CEV is expected to be an *Apollo*-like craft that will put people into orbit around Earth and allow them either to visit the space station or to be boosted on towards the moon or even, one day, Mars. What would launch this vehicle into orbit? Dr Griffin has dropped hints, most recently in testimony to Congress, that the solution will be solid-fuelled rocket boosters from the current shuttle.

Dr Griffin says he wants to “capitalise on the existing technical and workforce assets in a cost-effective and efficient way”. In other words, he wants to sack as few staff as possible, something that will no doubt go down well in Texas and Florida, where many NASA workers live. Another aspect of these plans is that Dr Griffin needs a vehicle that will operate as soon as possible after the shuttle has retired and far earlier than 2014, as was once planned. Presumably, the fewer parts that have to be developed from scratch, the less time it will take to build a new vehicle.

However, the current version of the 2006 NASA authorisation bill requires the agency to keep the shuttle flying until its replacement vehicle has flown. If this language is not modified, it spells bad news for NASA because the agency will need to run two space-vehicle programmes side by side—something it does not have the money to do. NASA is currently planning to phase out the shuttle and phase in the CEV. This is likely to mean a gap between one vehicle and the next.

Yet NASA's human space programme has had a two-and-a-half-year gap and the sky has not fallen in. And, while the shuttle may be the safest it has ever been, it will always be an overdesigned and fragile flying Ming vase compared with Russia's *Soyuz*. The sooner it is retired, the better.

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Compulsive behaviour

The Las Vegas pill

Jul 14th 2005
From The Economist print edition

How treatment for Parkinson's disease turned some patients into gamblers

Alamy

Keep taking the tablets

UNEXPECTED side-effects can result from taking medication. When Pfizer tested a new angina drug, male volunteers noted an unusual consequence—they were getting frequent erections. The compound, UK-92,480, was renamed Viagra by the pharmaceutical giant and the rest, as they say, is history. Now researchers have found that a class of drugs used to treat Parkinson's disease also has side-effects, albeit of a less desirable nature. It causes a small but significant number of patients to become compulsive gamblers, alcoholics, gluttons and sex pests.

Parkinson's disease occurs when the brain cannot make enough of a neurotransmitter called dopamine. Dopamine carries signals to the parts of the brain that control the initiation and co-ordination of movement. A shortage of dopamine in the brain can lead to tremors, slowness of movement, loss of balance and muscle rigidity. Although there is no cure for the disease, a class of drugs called dopamine agonists mimic the effects of dopamine and bring some relief to patients, particularly in the early stages of the disease.

However, researchers at the Mayo Clinic in Rochester, Minnesota, have discovered that dopamine agonists have the power to change the personality of some patients. In a study published online in the *Archives of Neurology*, they found that a small but significant number of patients, most of whom had never or only occasionally gambled before, took up the habit. Others became compulsive eaters or alcoholics, or developed an increased sex drive that their spouses found bothersome. Fortunately for the patients and their families, the penchant for indulging in compulsive behaviour disappears soon after stopping the medication. Unfortunately, the same is not true for the Parkinson's symptoms.

The drug fingered as having the biggest association with compulsive behaviour is called pramipexole, which strongly stimulates a dopamine receptor located in the part of the brain believed to be involved in the control of emotional matters. Over-stimulation of this area can cause compulsive behaviour.

In a parallel, retrospective study, it was found that 1.5% of patients taking pramipexole became pathological gamblers. Because of the rarity of the side-effect, the Mayo Clinic researchers say there is no reason to stop prescribing the drug. However, in light of this research, doctors prescribing pramipexole should warn patients of the risk, and patients and their families should be alert to any changes in behaviour. Meanwhile, who wants to bet on how long it will be before a crooked casino boss is caught adding dopamine agonists to the bar drinks?

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The peopling of the Americas

The plot thickens

Jul 14th 2005 | LONDON AND SEATTLE
From The Economist print edition

The New World may be far older than it originally seemed

AP

I was here first

TO THE Europeans who crossed the Atlantic Ocean in the 15th and 16th centuries, America was a New World. But it had been a New World before, when the first people arrived there. The question is, when? Scientific opinion is almost unanimous that *Homo sapiens* originated in Africa somewhere between 100,000 and 200,000 years ago, and then spread to Asia, Australia and Europe. That peopling of the Old World was completed about 35,000 years ago. The first Americans, ancestors of today's Amerindians, were, by contrast, thought to have been Asian hunter-gatherers who crossed the Bering Strait when it was dry land not more than 15,000 years ago.

That was before the discovery of Kennewick Man. The bones that bear this appellation were found in the banks of the Columbia River in Washington state in the summer of 1996. They looked so European—and so unAmerindian—that they were assumed to have been the remains of an early fur-trapper until they were carbon-dated. Then it was discovered they were 9,200 years old, throwing conventional theory into a spin.

Unfortunately, it has taken researchers the past nine years to establish their right to examine the bones properly. When the true age of Kennewick Man was discovered, local Amerindian tribes invoked the Native American Graves Protection and Repatriation Act and attempted to claim him for themselves, in order to rebury the remains. The act gives native American tribes rights over the remains of individuals and artefacts that have some connection with them, if they have been found on federal land or are in the custody of institutions such as museums that receive federal funding. Since the river bank was in the custody of the Army Corps of Engineers, Kennewick Man came within the scope of the act.

The nub of the legal argument came down to the point about connection. In common with some other faiths, Amerindian religions preach creation rather than evolution. One consequence is that many tribes believe they and their ancestors have occupied the same places since the dawn of time. But the researchers, led by Douglas Owsley, a forensic pathologist at the Smithsonian Institution in Washington, DC, argued that Kennewick Man was so different from modern Amerindians that there could not possibly be a connection with anybody who now lives in Washington state or, indeed, in the whole of North America.

It was only last year that the courts ruled in Dr Owsley's favour and gave him and his team the right to examine the bones—a right they started to exercise on July 6th. One thing the team hopes to discover is how Kennewick Man died. He had a spear or arrow tip snapped off in his hip, and marks of other events "that made him wince," as Dr Owsley, who often testifies in murder cases, puts it. The group will then try to work out whether the body was buried deliberately or simply covered by water-borne sand and mud in the weeks and months after death. Here, the focus is on mineral deposits within the bones and on their surfaces, says Thomas Stafford, the team's geochemist. Several bones have calcium carbonate deposits—the stuff of stalactites—adhering to one surface, indicating that those bones were, for many years, oriented so that water could drip down and leave deposits on a single side. In Kennewick Man's case, he seems to have lain on his back for millennia.

But the really interesting question, of course, is who he was and, in particular, whether he was related to another ancient and unusual skeleton. Peñon Woman—who was found in central Mexico in 1959—is 13,000 years old and shares many of Kennewick Man's skeletal features. She was dated only in 2002 by

Silvia Gonzalez, of Liverpool John Moores University in England.

Dr Gonzalez believes that Kennewick Man, Peñon Woman and one or two similar skeletons that have turned up in the Americas are actually descended from humans who came to the continents by boat, rather than by foot. These ancestral humans, she thinks, coasted around the northern Pacific Ocean over the course of several millennia. She suggests, on the basis of their anatomy, that they came from a homeland somewhere in the vicinity of South-East Asia.

Moreover, evidence Dr Gonzalez made public at the Royal Society in London, a few days before Dr Owsley started his investigation, suggests they may have arrived a lot earlier than the ancestors of modern Amerindians. Dr Gonzalez and her colleagues have dated a field of solidified volcanic ash in central Mexico that bears a series of trails that they believe are human footprints. The ash is 40,000 years old. It implies the prints are that age, too.

The search is on for other signs of those who made them. In Mexico, this is indeed worthwhile. The same cannot be said for the United States where, if successful, such a search would probably result in years of litigation.

Whether the precedent of Dr Owsley's success in getting his hands on Kennewick Man means such litigation can be settled more speedily in the future remains to be seen. If it does not (and an amendment to the Native American Graves Protection and Repatriation Act about to be proposed in the Senate seems designed to abolish the need to prove a connection with an existing tribe), then paleoanthropology could become the next branch of science to be driven out of the United States by religious dogma.

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Global warming

More than hot air

Jul 14th 2005
From The Economist print edition

The G8 summit made quiet progress on climate change

Get article background

TONY BLAIR had promised to make climate change one of the top issues at the G8 summit held last week in Scotland. Despite the distraction of bombs in London, he stuck with the plan. And, in the event, he persuaded George Bush—the bête noire of the climate crowd—to sign a statement that appears to take climate change seriously.

Yet many greens still labelled the summit a failure. It is true that the leaders did not agree to any firm new targets for reducing greenhouse gases and Mr Bush certainly did not embrace the Kyoto treaty, which binds signed-up countries to cut their emissions. Even so, the summit made some progress.

Much has been made of the G8 leaders' statement agreeing that global warming is really happening and Mr Bush's unprecedented acknowledgment that mankind's actions are indeed playing an important role in it. In fact, those were not the most important outcomes. The Bush administration has acknowledged on numerous occasions that global warming is real and caused partly by humans. The snag is that when the cameras have gone, White House officials have quietly censored scientific reports to emphasise lingering uncertainties and blocked progress on climate policies in other artful ways.

The summit's real advance appeared rather banal: the promise of a new “dialogue” on climate policy among the G8 and a handful of large and populous developing countries. These talks are meant to focus on what to do after 2012, when the first round of the UN's Kyoto treaty expires. Some have already criticised this approach for bypassing the UN's formal climate-negotiations process. Others grouse that there is no mention of Kyoto-style emissions targets or timetables.

Actually, this dialogue could turn out to be important precisely for those reasons. Anything that resembles Kyoto has no chance of winning American approval. But a smaller group that includes China and India could well persuade America to act on climate. Prior to the summit, America had refused even to discuss what should happen after 2012.

The first meeting of the new climate dialogue is due to take place in London in early November. So it is just possible that cosy talks among some of the world's biggest emitters might pave the way for a lasting breakthrough on global warming.

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About sponsorship

New fiction

Dear Osama

Jul 14th 2005
From The Economist print edition

In his first novel, published on the day of the London bombings, a British author strives to convey the terror of terrorism—with unforeseen consequences

THE working-class woman at the centre of "Incendiary" likes the simple things in life: watching Arsenal, a north London football club, thrash posher Chelsea; cooking fish fingers for her four-year-old son; going to the pub.

One afternoon, the woman we know only by a nickname, Petal, waves her son and her husband off to watch their favourite team. A few hours later, the brand-new Arsenal stadium is immolated by 11 suicide bombers, six wearing fragmentation bombs and five wearing incendiaries. A thousand people die. When her son's toy rabbit is found, his green ears are black with blood and one of his paws is missing. To assuage her fears as London descends into chaos, Petal drafts a letter to terror's *capo dei capi*: "Dear Osama I want to be the last mother in the world who ever has to write you a letter like this. Who ever has to write to you Osama about her dead boy."

Incendiary
By Chris Cleave

Knopf; 256 pages; $22.95. Chatto & Windus; £10.99

Buy it at
Amazon.com
Amazon.co.uk

"Incendiary" is not published in America until next month, but it came out in Britain on July 7th, the day of the London bombings. A cynic might view this strange coincidence of life and art as a strategic marketing opportunity; the *Sunday Telegraph* immediately offered the young author, Chris Cleave, a prominent spot to vent his feelings. For others, the timing was unfortunate: Waterstone's, a bookstore chain, took down the book's promotional posters (pictured above). Random House, the publisher, called in the police after an irate Arsenal fan complained the book might give would-be bombers ideas.

The brouhaha about whether "Incendiary" is in poor taste distracts from a deeper question, which is can you really use fiction to write about terror? Can writing, however imaginative, ever be more effective than television images? If so, how? Why is "On the Beach", Nevil Shute's novel about trying to survive an atomic bomb, still so moving after nearly half a century and Tim LaHaye's far more recent "End of Days" series—despite 55m copies sold—such literary garbage?

Mr Cleave's multiple themes—the controlling tendency of governments when responding to civil mayhem, the rightness or otherwise of sacrificing a few in order to save many, love or force as the best riposte against terror—give his book a density he could easily have set aside, given that his heroine is only more-or-less literate ("I'm not thick or anything just don't ask me where the commas go"), and the tone is often rueful, funny even.

Mr Cleave has also managed two particular, and rather old-fashioned literary achievements: a distinctive narrative voice and a captivating heroine. “What captured me entirely when I first read it was the voice,” says Knopf's president, Sonny Mehta, who bought the American rights for $100,000 within 24 hours of receiving the manuscript last November; it has since been sold in 14 other countries.

By turns funny, sad and wickedly naughty—she was having sex on the family sofa with a man she hardly knew when she saw the stadium go up in flames—Petal has a rare courage. Admirable enough in the novel's big set pieces, where she crawls into the stadium to try and discover what has become of the two men in her life, survives a fall in the Thames although she cannot swim, and ends up stacking shelves in a supermarket, her bravery shows up most effectively in the tiny brush strokes with which Mr Cleave depicts her humanity. “I would of shrugged back at him,” she admits, “only shrugging isn't easy when you're holding 2 Tesco bags.”

But it is the voice with which she speaks to Osama bin Laden that best defines Petal—and the novel. “You've hurt London Osama but you haven't finished it you never will. London's like me it's too piss poor and ignorant to know when it's finished...I am London Osama I am the whole world. Murder me with bombs you poor lonely sod I will only build myself again and stronger. I am too stupid to know better I am a woman built on the wreckage of myself.”

Fiction can be a highly effective way of depicting terror. Not because terror is a better subject than others for novels, though today it has a certain topicality, but because fine writing—and “Incendiary” is a very fine example—is such an eloquent human instrument.

Incendiary.
By Chris Cleave.
Knopf; 256 pages; $22.95. Chatto & Windus; £10.99

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The National Security Council

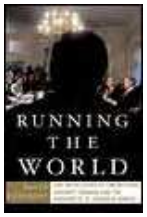
Boxcutter needed

Jul 14th 2005
From The Economist print edition

WITH its “in” crowd, its “out” crowd and its jostling groups in between, Washington, as the late Meg Greenfield once said, is just like school. And the National Security Council, the White House office that co-ordinates foreign policy, is about as “in” as it gets. David Rothkopf, foreign-policy commentator and former Clinton administration official, falls somewhere in the middle, which may be one reason why he so wanted to peer into the inner circle. His book, while not as juicy as its title suggests, is, however, a sprawling attempt at making sense of one of Washington's most amorphous institutions.

There are good reasons why Americans know so little about the NSC. Appointed by the president, national security advisers and their staff need no Senate confirmation, so are not required to testify before Congress. Some advisers, such as Henry Kissinger and Zbigniew Brzezinski, have basked in the media limelight, but the NSC's internal workings usually lie outside public view even when they undergo dramatic shifts. And major shifts are common, for the NSC reflects the ideology and management style of the White House far more than other agencies do.

Running the World: The Inside Story of the National Security Council and the Architects of American Power
By David J. Rothkopf



PublicAffairs; 554 pages; $29.95

Buy it at
Amazon.com
Amazon.co.uk

Mr Rothkopf may be a Democrat, but he is bipartisan when it comes to rating the quality of America's national security co-ordination. Under Richard Nixon, Mr Kissinger created a powerful department which brutally sidelined the defence and state departments, not to mention the CIA. Nonetheless, Mr Rothkopf gives him high marks for the policies that resulted, notably the opening to China and arms-control negotiations with the Soviet Union. (As a former managing director of Kissinger Associates, the author should know Mr Kissinger well.) Under Jimmy Carter, Mr Brzezinski also liked to out-muscle his bureaucratic rivals, but he gets credit for his prescient views on Soviet decline.

When the Reagan administration took over, the president's advisers wanted to avoid a replay of the bitter rivalries of the 1970s and the rise of another bureaucratic superstar like Mr Kissinger. They demoted the national security adviser to a sub-cabinet position and moved his office into the basement, reducing the NSC to what Mr Rothkopf calls “an undersupervised, underproductive, ingrown system.” The result was the Iran-Contra fiasco, in which Oliver North, a rogue NSC official, illegally diverted money from secret arms sales to Iran to the right-wing Nicaraguan contras. The NSC recovered after 1986, when Frank Carlucci and Colin Powell introduced changes to reduce the bureaucratic rivalries. These reforms held through the presidency of George Bush senior, and were finally institutionalised by Bill Clinton's first national security adviser, Tony Lake.

What of today's NSC? Despite securing interviews with several key Bush administration officials, including Condoleezza Rice, Mr Rothkopf simply rehashes the view that Ms Rice was usurped by Vice-President Dick Cheney, who built up a mini-NSC on his own staff and used his allies on the NSC to magnify his power. Ms Rice also comes under fire for failing to grasp the threat from al-Qaeda before the September 11th attacks, but this charge has been common since Richard Clarke, a former counterterrorism chief, published his own book more than a year ago.

Mr Rothkopf's is not among the more successful efforts to prise open the black box of decision-making in the current Bush administration. But as a synthesis of current American policy, it serves a purpose. Anecdotal, garrulous, even gossipy at times, it is just like school—only with higher stakes.

Running the World: The Inside Story of the National Security Council and the Architects of American

Power.
By David J. Rothkopf.
PublicAffairs; 554 pages; $29.95

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Business satire

Glöbâl thinking

Jul 14th 2005
From The Economist print edition

IT IS a safe bet that the lives of the characters in 18th-century epistolary novels would have been very different had they been equipped with e-mail, text messaging and a BlackBerry. Valmont, the rakish lover in “Les Liaisons Dangereuses”, never had to cover his tracks after sending a letter of seduction “To all staff” by mistake, or break into the IT department at night to try and erase old e-mails from his computer's hard drive. Martin Lukes, by contrast, has so much enabling technology that his ability to set traps for himself is almost limitless.

Martin Lukes: Who Moved My BlackBerry?
By Lucy Kellaway

Viking; 375 pages; £12.99

Buy it at
Amazon.co.uk

Mr Lukes is marketing director of a-b glöbâl (UK), a strikingly unprofitable sort-of consultancy known only to Lucy Kellaway of the *Financial Times* (which owns part of *The Economist*). Using his e-mails and text messages, she documents a year in Mr Lukes's working life, which is punctuated by occasional e-mails of encouragement from Pandora, his business coach, who signs off each one with an exhortation to “Strive and Thrive!”

Through this privileged access to the “sent items” folder of his mailbox, readers are introduced to Mr Lukes's family and colleagues. Encounters on the fire escape with his PA Keri Tartt are recorded, as is Mr Lukes's bumpy relationship with his wife Jenny, which deteriorates when she joins a-b glöbâl and rises up the company, thereby truly upsetting Mr Lukes's work/life balance. The result is a unique, warts-and-all business memoir that balances Mr Lukes's successes at work with his weaknesses—or his “less strong strengths”.

Mr Lukes's wooing of Barry S. Malone—a-b glöbâl's inspirational CEO, who sends e-mails to all the company's co-leaders (staff) with a declaration of love, and has somehow built up a suspiciously expensive art collection—is a good example of the value of networking on the fairway, and will repay study in the lecture halls of some of the better business schools. On the other hand, Mr Lukes's constantly innovating mind occasionally lands him in trouble. His brave endorsement of the suggestion from a branding consultancy that a-b glöbâl change its name to <Wednesday>, for example, shows that even in a culture as free-wheeling and creative as a-b glöbâl's, being too far ahead of the rest of the humanware (staff) can occasionally be a handicap.

Mr Lukes has read widely in the field of business classics, absorbing their lessons and spirit. The more dedicated student would be well advised to use Ms Kellaway's book as a short-cut to understanding current corporate jargon and to picking up invaluable practical tips for the modern, upwardly mobile manager.

Martin Lukes: Who Moved My BlackBerry?
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The Falklands war

Blood and bloody noses

Jul 14th 2005
From The Economist print edition

THE Falklands war of 1982 should never have begun. In trouble at home, Argentina's military junta wanted a quarrel abroad; something it could have achieved without enraging Margaret Thatcher. Her government, for its part, failed doubly in the basics of deterrence.

First, Britain could have had a deterrent submarine on the spot, and didn't. Second, and worse: ready or not, if you are willing to give an intruder a bloody nose, warn him flatly, and you may never have to try. Britain had no force at hand to eject invaders, and no certainty that, once mounted, one would succeed. But Mrs Thatcher was willing, and yet no warning was sent. The conclusion of the official Franks report, in 1983, that her government was in no way to blame for the invasion was nonsense. Critics said so at the time; Sir Lawrence Freedman's history of the conflict amply proves it.

The Official History of the Falklands Campaign, Volumes I and II
By Lawrence Freedman

Routledge; 253 pages; $61 and £35
Routledge; 849 pages; $88 and £49.95

Buy it at
Amazon.com
Amazon.co.uk

In contrast, he also amply proves that the torpedoing of Argentina's cruiser *General Belgrano* was by no means wrong. The French have a saying *à la guerre comme à la guerre*: when you're at war, act that way. Britain's many foreign critics did not subscribe to this. The sinking, which cost 321 lives, dismayed the governments of Latin America and Spain, and many others to whom then (and now) "colonialism" is at work when 2,000 people, all of whom wish to be British, are allowed to live as such in some islands—with no aboriginal inhabitants—near Argentina but British since 1833. More important, it dismayed Ronald Reagan's secretary of state, Alexander Haig, who was little concerned with that issue but much with the alleged Soviet menace in the region.

The myth soon sprang up that Mrs Thatcher chose to torpedo an American-backed Peruvian peace plan. In Britain, critics saw proof of this in the facts that the *Belgrano* was just beyond the southern edge of the circular "exclusion zone" that Britain had proclaimed around the islands, and had reversed course, westward (ie, away from a British force to their east).

Sir Lawrence shows that this oft-repeated allegation "simply is not true". From intercepted signals, the British naval commanders had good reason to expect an imminent attack. It did not come. But they did not see that, or the *Belgrano*'s change of course, as evidence that none ever would. Why should they?

So the *Belgrano* was sunk; for naval, not political reasons. Years later, the present reviewer discussed its fate with an Argentine officer who had been aboard, and had very nearly drowned. In summary, his attitude was very French. "The Malvinas"—the Argentine name for the Falklands—"are part of Argentina. We'd turned away from your ships. Sure, but I'm a naval officer—if I go to war, I expect to be shot at."

Far more serious issues are raised by Sir Lawrence's extensive revelations of both American and British attitudes. Mrs Thatcher had expected full support from Britain's allies against a piece of naked aggression. She found no such thing. General Haig sat on the fence, America's ambassador to the United Nations, Jeane Kirkpatrick, on the Argentine side of it. Only the defence secretary, Caspar Weinberger, proved a true friend. The British were bitter at repeated American urgings to offer Argentina some face-saving way out, "not so much"—Sir Lawrence's caustic words—"to produce a better outcome for the Falklands but to help Galtieri [leader of the junta] hold on to power". What ways out would America offer Cuba if it invaded Puerto Rico, the British asked?

They should not have been surprised. Supporting thuggish right-wing regimes in the area as a bulwark

against the supposed Soviet threat was at the time an American priority. Minor allies, however loyal, cannot expect inconvenient loyalty in return from a superpower. The book could make useful bedtime reading for Tony Blair.

The Official History of the Falklands Campaign Volumes I and II.
By Lawrence Freedman.
Routledge; Vol I, 253 pages; $61 and £35. Vol II, 849 pages; $88 and £49.95

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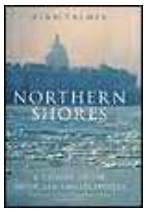
The Baltic Sea

Herrings and history

Jul 14th 2005
From The Economist print edition

WHAT do the countries round the Baltic Sea have in common apart from dimly remembered history? The answer used to be not much more than herrings—eaten cold, with vinegary sauces and hot boiled potatoes. That shared taste, in northern Germany, Finland, the Soviet-occupied Baltic states and Poland, survived communism. Yet the region used to be one of the most dynamic and interesting bits of Europe, and is becoming so again.

Northern Shores: A History of the Baltic Sea and its Peoples
By Alan Palmer



John Murray; 448 pages; £25

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Eight centuries ago, the Hanseatic League began uniting 200 northern trading cities in a medieval free-trade zone which put shared commercial interests above petty considerations of national interest. In that sense, it was the beginning of the modern European Union.

The Hanseatic project foundered, in the end, amid what Alan Palmer, one of Britain's most prolific popular historians, neatly terms wars about “creed and greed”. His latest offering is a fine example of the skills that have brought him fame and fortune. Despite juggling a dozen countries, three religions and the rise and fall of four empires, he handles complex material so logically and elegantly that the reader can easily digest a diet of unfamiliar names and places, nodding with interested comprehension when told, for example, that: “Later in the century, Birger Jarl's kinsman Tyrgils Knutson, the biggest landowner in Sweden, countered Novgorodian raids into Finland by leading a crusade to clear the Karelian coast of heathen pirates.”

Most readers will enjoy the last chapters the most. In 1914, the Baltic region consisted of German and Russian empires, plus Danish and Swedish kingdoms. Just four years later, the empires were republics, and there were five more sovereign states on the shores of the Baltic, plus the free port of Danzig. What happened to them all in the twists and turns of interwar history, and in the Armageddon that followed, are grippingly described.

That said, it is a pity that the publishers could not manage a single illustration, apart from three rudimentary maps. The book also skimps on economics, particularly in recent years. There is no mention of Russia's use of oil and gas for political purposes, or of the transit trade in money, metal and other commodities that boomed after the collapse of Soviet power. Nor does Mr Palmer devote much attention to the effect that the low-tax, lightly regulated post-communist countries of Poland and the Baltic states had on the stodgy economies of Denmark, Sweden, Germany and Finland. Political, historical and cultural ties across the Baltic Sea are fascinating. But in the end it may be business that matters most.

Northern Shores: A History of the Baltic Sea and its Peoples.
By Alan Palmer.
John Murray; 448 pages; £25

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BOOKS AND ARTS

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Frank Sinatra

The master's voice

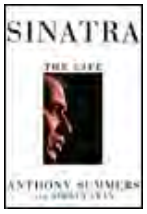
Jul 14th 2005
From The Economist print edition

IN 1966, Gay Talese, an American writer, produced “Frank Sinatra Has a Cold”, probably the best piece about the singer ever written. In fewer than 15,000 words Mr Talese managed to capture the man, the music, the life, the actor, the style, not to mention the booze, broads, brawls, the spills and, as the man himself might have said, the thrillsville of it all.

Now, Anthony Summers and Robbyn Swan have produced a brick—with almost 200 pages of acknowledgments, references and sources, as if the accretion of detail would add up to at least as much as the man, maybe more. It does not. It adds up to far, far less. This is Kitty Kelley heavy.

In “Sinatra: The Life”, you never for a minute get a feel for the man, or, most important, his music. Even when the authors discuss his career, the singing and the acting that made him the greatest performer of the 20th century, there is always an agenda; the book's stated purpose is to uncover the truth about Sinatra's politics, his womanising, his violence and, most of all, his ties to the mob. There is some interesting history, especially about Sinatra's Sicilian roots. But whenever the authors reveal the fruits of obsessive investigation, especially where it concerns the Mafia, the tone is snide, even self-satisfied. (Told you so!)

Sinatra: The Life
By Anthony Summers and Robbyn Swan



Knopf; 592 pages; $26.95.
Doubleday; £20

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The examination of Sinatra's left-wing politics promises revelations about a little known part of the singer's life. But in talking, say, about “The House I Live In”, a liberal anti-racism anthem recorded in the 1940s, the authors are only too eager to say that some people turned it into a jingoistic anthem. They offer no context, nor do they make the obvious comparison with the attempt by the American right to co-opt Bruce Springsteen's “Born in the USA”.

Never the most elegant writers, Mr Summers and Ms Swan do not understand the potency of style which was so important a part of the Sinatra genius. (For a great book on the subject, try “The Way You Wear Your Hat” by Bill Zehme.) He liked sharp tailoring and monogrammed shirts, the authors say of Sinatra; they could be speaking about many men in 1942, or 2005 for that matter. No detail, no context.

The objective of “Sinatra: The Life”, to uncover so-called shocking facts, especially about the Mafia, is certainly met. But a single line on the blurb is a giveaway: “Sinatra was much more than his music.” The truth, though, is that without the music, Sinatra is meaningless. It may be that the huge life gave it context, excitement, intrigue, but it is the music—and only the music—that made it matter. You just keep thinking: did Lucky Luciano, or any other hood, give Sinatra the voice, the musical taste, the genius for phrasing that turned a three-minute pop song into a story of love, loss, weariness, joy?

In other words, if Mozart did it under the table with girls at court, does it matter? Curiously, the epigraph the authors have chosen for “Sinatra: The Life”, puts it rather better than the weighty tome—“Right from the beginning, he was there with the truth of things in his voice”—Bob Dylan.

Sinatra: The Life.
By Anthony Summers and Robbyn Swan.
Knopf; 592 pages; $26.95.
Doubleday; £20

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American caricature

Nina's dad

Jul 14th 2005
From The Economist print edition

London is the place to see Al Hirschfeld

FEW people have charted the Broadway theatre with the curvilinear skill of Al Hirschfeld, the American artist and illustrator who died in 2003, five months shy of his 100th birthday. For much of the 20th century, Mr Hirschfeld's drawings were there to be savoured in the Sunday edition of the *New York Times*, where one's appreciation of his gift for spearing a performer's physiognomy co-existed with a weekly hunt for the Ninas—that is to say, the number of times Mr Hirschfeld had the name Nina embedded in almost every drawing, as a tribute to his only child.

If Mr Hirschfeld is synonymous with New York, it is surprising to find London hosting the largest concentration of his work on public view in one city at once. First to open was “Hirschfeld's Brits on Broadway”; 45 drawings spanning the many crossings made by British performers and productions from London to New York. The show chronicles both the large-scale invasion of the British musical—“The Phantom of the Opera” is memorialised in a sketch dominated by the moon-faced singer, Sarah Brightman, and her gleaming, devouring teeth—as well as the many British actors, both living and long gone, who found Broadway renown. The late Sir Michael Redgrave is seen in his Broadway debut in 1948 as a notably sad-eyed Macbeth, while the exhibition reminds us that it was Mr Hirschfeld who designed the celebrated poster for the 1956 Broadway premiere of “My Fair Lady”. The image is of the musical's source, George Bernard Shaw—who wrote the original “Pygmalion”—making a human marionette from somewhere in the clouds of the show's first Henry Higgins, Rex Harrison, who in turn is seen pulling the strings of his distaff lead Julie Andrews.

But Mr Hirschfeld was no stranger to Hollywood, as a companion show across the Thames bears out. “Hirschfeld's Hollywood: The Film Art of Al Hirschfeld” traces the artist's early days working in studio PR and art departments (Charlie Chaplin was a frequent subject) through to later drawings that capture the essence of that particular star. Cary Grant, as sketched by Mr Hirschfeld, has one eyebrow raised and the other lowered, the image almost impossibly rakish. Jane Fonda here appears eyes ablaze, jaw firmly thrust out: a fiery vision to match one's memories of the actress during that time.

Would you like a drawing for yourself? If so, make your way to the Chris Beetles Gallery in St James's, where more than 100 Hirschfeld originals are on sale for £3,300 to £10,000 ($5,800-$17,500). Looking through the display, one is struck anew by the artist's droll self-assessment as a “character-ist” as opposed to caricaturist, a term implying a belittling quality not found in Mr Hirschfeld's output. Whether it is a svelte and willowy Joan Collins in “Private Lives” or “Damn Yankees” star Jerry Lewis, arms akimbo and eyebrows reaching for the sky, the drawings find something essential in the ephemera that is live performance. The show may be over, but Mr Hirschfeld's signature wit lives on.

“Hirschfeld's Brits on Broadway” is at the Theatre Museum until October 30th.

“Hirschfeld's Hollywood: The Film Art of Al Hirschfeld” is at the National Theatre until August 13th.

“Al Hirschfeld: 1903-2003” is at the Chris Beetles Gallery until August 27th.

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Economist.com PRINT EDITION OBITUARY
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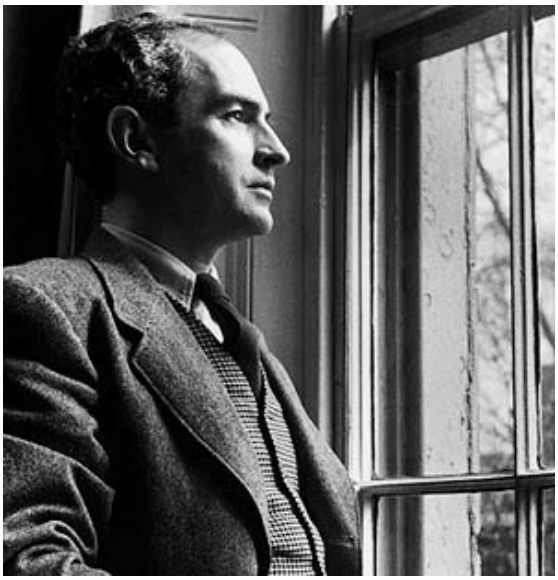
Obituary

Christopher Fry

Jul 14th 2005
From The Economist print edition

Camera Press



Christopher Fry, England's last successful playwright in verse, died on June 30th, aged 97

THE County Theatre in Bedford gave Christopher Fry his first taste of the stage. He was five, and the production was “Peter Pan”. His mother feared he would be traumatised by Captain Hook or the crocodile, but those were fine. What terrified young Christopher, so much that he could not bear to watch, was the thought that the grown-ups might burst in before Peter had helped the Darling children to spread their wings and escape.

Escapism was Mr Fry's forte. For a decade in the mid-20th century—that especially grim decade of freezing winters, joblessness and persistent rationing that followed the war—he offered strange, sparkling, pretty, vaguely metaphysical plays, written in verse. He called them comedies, not because they were rib-ticklers but because, in his words, “Comedy is an escape, not from truth but from despair”. They had happy endings, and audiences went out comforted into the dark streets.

Looked at in the harsh natural light of John Osborne, Harold Pinter and Arthur Miller, Mr Fry's plays (his “Calling”, as he thought of them) seem very odd indeed. They are hardly dramas, because almost nothing happens. All the characters, bar the Cockney servants, talk in the same way. And their talk is poetry.

Mr Fry was a beautiful, vivid writer, unable to resist words ever since, as a child, he had suddenly become aware of their separateness and weight, “like coloured stones in my hand”. His hawk was “A bird obedient/To grace, a bright lash on the cheek of the wind”; his hare was seen “ladling himself along in the emerald wheat”. Autumn was Mr Fry's best season; the first dank smell of it, he wrote, made him thrill as though he was being brushed by teazels. So here was the first intimation of it:

> ...in a field of milk-white haze the lost
> Apollo glows and wanders towards noon;
> The wind-blown webs are brighter,
> The rolling apples warmer than the sun.

On the stage, however, poetry pushed his dialogue close to nonsense. “I'll knock your apple-blossom

back into the roots/Of the Tree of Knowledge where you got it from!" cries a character in Mr Fry's most famous and successful play, "The Lady's Not for Burning". And, a little earlier,

> What on earth should I do with a road,
> that furrow
> On the forehead of imbecility, a road?

Mr Fry counted T.S. Eliot as a mentor and a friend, and there was much of the master in his plays. Both men conscientiously sought to restore both verse and faith to drama, and both eventually discovered that, in an age without certainties, Fate or God, neither verse nor faith will work very well on the stage. Still less metaphysics. Eliot's plays were clunkers in this respect, weighed down with portentousness emphasised by putting pentameters in the mouths of the interwar *beau monde*. Mr Fry's were sprightlier, but no more plausible. "And so, for me, the actual!" cries the heroine of "Burning".

A sweetly courteous and modest man, Mr Fry was well aware that he was lucky. He had caught not only the right mood, but the right time: a golden age of acting, with John Gielgud, Laurence Olivier, Edith Evans and Tyrone Power all lining up to appear in his works. He was well aware, too, of the complaint that his writing was unreal, and had a counter to that. In his plays, admittedly, "We don't bark our shins against solid furniture...but even furniture has an atomic dance of its own, as true, in its way, as the solidity."

Considering the stars

Since his childhood—a time of "penurious gentility" after the death of his father, from drink, when he was three—he had been scribbling plays, directing some, and running troupes of players in Oxford and Tunbridge Wells. His first success, however, came in 1938, when a local vicar in Sussex asked him to write a play for his church. Mr Fry wrote "The Boy with a Cart", which drew him to Eliot's attention. After the war, he was commissioned by the Arts Theatre; in his *annus mirabilis*, 1950, he had three plays running in the West End.

Osborne's "Look Back in Anger", staged at the Royal Court in 1956, put paid to him. After that, few could look at Mr Fry's plays again. Without bitterness, he took to translating and script-writing, including (uncredited) the script of "Ben Hur". His translations introduced the English to Jean Anouilh, a French dramatist whom they came to like much better than himself.

With typical chivalry, Mr Fry always maintained he had enjoyed "Look Back in Anger". He added, however, that it contained a pessimistic view of humanity that he felt bound to oppose. He was not, himself, exactly an optimist. Although he was a Christian and a Quaker, his plays laid out no sure means of salvation and no clear sense of a presiding power, benign or otherwise. "The inescapable dramatic situation for us all", he wrote in 1948, "is that we have no idea what our situation is."

But he was hopeful. His characters always had much to say about the sun, the moon and the stars; their faces were resolutely turned upwards. "Here, we're as dull as unwashed plates," says a character in "Venus Observed"; "out there/We shine." The poetry, as so often, seems too pat. But for Mr Fry's reality, it is probably true that only poetry would do.

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Overview

Jul 14th 2005
From The Economist print edition

America's trade deficit in goods and services narrowed to $55.3 billion in May, from $56.9 billion in April. A $2.4 billion fall in imports of petrol and other industrial goods accounted for most of the improvement. America's deficit in goods alone amounted to $717.9 billion in the 12 months to May.

American companies (not including farms) added 146,000 workers to their **payrolls** in June. The unemployment rate fell to 5.0%.

The performance of the **euro area's** industries is still mixed. In **Germany**, industrial production expanded by 0.8% in the year to May. But it fell at an annual rate of 0.8% in the last three months of that period. In **Italy**, production shrank by 2.1% in the year to May. **French** industry regained some ground, growing by 0.3% in May, after falling by 0.3% the month before. But production is still 0.2% lower than a year ago.

Japan's producer prices rose by 1.4% in the year to June. In the second quarter, they rose at an annual rate of 3.5%.

Britain's trade deficit in goods and services narrowed in May to £3.47 billion ($6.3 billion) from £3.7 billion the month before. Its trade deficit in merchandise increased to $111.9 billion in the 12 months to May. Consumer prices rose by 2.0% in the year to June, in line with the Bank of England's inflation target.

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Output, demand and jobs

Jul 14th 2005
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	latest	qtr*	2005	2006	latest	latest	latest	year ago
Australia	+ 1.9 Q1	+ 2.8	+ 2.4	+ 3.1	+ 1.2 Q1	+ 1.8 Q1	5.0 Jun	5.6
Austria	+ 2.0 Q1	+ 0.8	+ 1.9	+ 2.0	+ 3.2 Apr	– 2.4 Apr	4.6 May	4.4
Belgium	+ 1.8 Q1	– 0.1	+ 1.2	+ 1.9	+ 1.1 May	+ 3.4 Apr	12.2 May†	12.3
Britain	+ 2.1 Q1	+ 1.5	+ 2.2	+ 2.2	– 1.9 May	+ 1.3 May	4.8 May††	4.8
Canada	+ 3.3 Q1	+ 2.3	+ 2.8	+ 3.0	+ 1.7 Apr	+ 4.0 Mar	6.7 Jun	7.2
Denmark	+ 0.8 Q1	+ 0.6	+ 2.1	+ 2.2	+ 2.0 May	+ 8.7 May	5.9 May	6.5
France	+ 1.8 Q1	+ 1.4	+ 1.5	+ 1.9	– 0.2 May	+ 1.5 May	10.2 May	10.0
Germany	+ 1.1 Q1	+ 4.2	+ 1.1	+ 1.3	+ 0.8 May	+ 2.7 May	11.7 Jun§	10.5
Italy	– 0.2 Q1	– 1.8	– 0.2	+ 1.1	– 2.1 May	– 4.6 Apr	7.8 Mar	8.2
Japan	+ 1.3 Q1	+ 4.9	+ 1.6	+ 1.8	+ 0.3 May	+ 3.6 Apr	4.4 May	4.6
Netherlands	– 0.5 Q1	– 3.2	+ 0.5	+ 1.5	– 1.0 May	– 2.8 Apr	6.6 May**	6.5
Spain	+ 3.3 Q1	+ 3.5	+ 3.1	+ 2.8	+ 0.5 May	+ 2.2 May	9.9 May	11.1
Sweden	+ 1.4 Q1	+ 1.1	+ 1.9	+ 2.6	– 0.9 May	+ 4.8 May	5.2 May†	5.7
Switzerland	+ 0.8 Q1	+ 0.2	+ 0.9	+ 1.5	– 0.3 Q1	+ 2.7 Apr	3.6 Jun†	3.7
United States	+ 3.7 Q1	+ 3.8	+ 3.5	+ 3.2	+ 2.7 May	+ 4.3 May	5.0 Jun	5.6
Euro area	+ 1.3 Q1	+ 2.0	+ 1.3	+ 1.7	+ 0.9 Apr	+ 2.0 May	8.8 May	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 2.0 Q1	+ 0.5	na	na	– 7.5 May	+ 6.4 Apr	10.2 May†	11.6
Greece	+ 3.5 Q1	na	na	na	– 2.3 May	+ 3.5 Apr	10.2 Dec	9.8
Iceland	+ 2.9 Q1	na	na	na	na	na	2.3 Apr†	3.5
Ireland	+ 2.8 Q4	na	na	na	– 3.4 May	+ 3.9 Apr	4.2 Jun	4.4
Luxembourg	+ 3.8 Q4	na	na	na	+ 4.6 Apr	– 3.5 May	4.5 May	3.9
New Zealand	+ 1.9 Q1	+ 1.5	na	na	+ 3.5 Q4	+ 5.8 Q1	3.9 Q1	4.2
Norway	– 0.8 Q1	+ 2.2	na	na	+ 0.1 May	+ 7.2 May	4.6 May**	4.3
Portugal	+ 0.1 Q1	+ 0.8	na	na	– 4.7 May	+ 2.5 May	7.5 Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Mar-May; claimant count rate 2.8% in Jun. §EU harmonised rate 9.3% in May. **Mar-May.

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Prices and wages

Jul 14th 2005
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2005	2006	latest		year ago	latest		year ago
Australia	+ 2.4	Q1	+ 2.0	+ 2.7	+ 2.6	+ 6.0	Q1	– 1.1	+ 4.5	Q1	+ 5.0
Austria	+ 2.3	May	+ 2.1	+ 2.1	+ 1.7	+ 0.7	Jun	+ 5.9	+ 2.3	May	+ 2.1
Belgium	+ 2.9	Jun	+ 2.3	+ 2.1	+ 1.7	+ 2.4	May	+ 3.9	+ 2.6	Apr	+ 2.3
Britain	+ 2.0	Jun*	+ 1.6	+ 1.9	+ 1.9	+ 2.4	Jun	+ 2.6	+ 4.1	May†	+ 4.6
Canada	+ 1.6	May	+ 2.5	+ 2.1	+ 2.2	– 0.3	May	+ 6.4	+ 3.1	Apr	+ 3.3
Denmark	+ 1.8	Jun	+ 1.1	+ 1.4	+ 1.7	+ 3.0	May	+ 2.8	+ 3.1	Q1	+ 3.3
France	+ 1.7	Jun	+ 2.4	+ 1.7	+ 1.6	+ 2.4	May	+ 2.2	+ 2.9	Q1	+ 2.8
Germany	+ 1.8	Jun	+ 1.7	+ 1.4	+ 1.1	+ 2.2	Jun	+ 3.5	+ 1.6	Apr	+ 1.1
Italy	+ 1.8	Jun	+ 2.4	+ 2.0	+ 1.9	+ 3.1	May	+ 2.9	+ 3.1	May	+ 3.3
Japan	+ 0.2	May	– 0.5	– 0.1	+ 0.2	+ 1.4	Jun	+ 1.5	– 0.2	May	+ 2.2
Netherlands	+ 1.6	Jun	+ 1.4	+ 1.4	na	+ 3.3	May	+ 4.2	+ 0.6	Jun	+ 1.4
Spain	+ 3.1	Jun	+ 3.5	+ 3.0	+ 2.7	+ 4.2	May	+ 3.8	+ 3.0	Q1	+ 3.2
Sweden	+ 0.6	Jun	+ 0.5	+ 0.5	+ 1.4	+ 2.4	May	+ 1.2	+ 1.3	Apr	+ 2.9
Switzerland	+ 0.7	Jun	+ 1.1	+ 1.1	+ 1.1	+ 0.5	May	+ 1.4	+ 0.9	2004	+ 1.4
United States	+ 2.8	May	+ 3.1	+ 2.9	+ 2.5	+ 3.5	May	+ 4.7	+ 2.7	Jun	+ 2.0
Euro area	+ 2.1	Jun	+ 2.4	+ 1.9	+ 1.5	+ 3.5	May	+ 2.4	+ 3.1	Q1	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.1	Jun	– 0.1	na	na	+ 2.3	May	+ 1.7	+ 4.1	Q1	+ 4.2
Greece	+ 3.3	Jun	+ 2.8	na	na	+ 3.0	May	+ 6.0	na		na
Iceland	+ 3.5	Jul	+ 3.6	na	na	+ 4.2	Jun	+ 5.3	+ 6.6	May	+ 4.6
Ireland	+ 2.4	May	+ 1.7	na	na	– 2.2	May	– 0.1	+ 5.1	Q4	+ 4.5
Luxembourg	+ 2.4	May	+ 2.3	na	na	+ 8.9	Apr	+ 6.2	+ 1.8	Mar	+ 2.1
New Zealand	+ 2.8	Q2	+ 2.4	na	na	+ 4.2	Q1	– 0.6	+ 2.5	Q1	+ 2.2
Norway	+ 1.7	Jun	+ 1.3	na	na	+19.3	Jun	+12.0	+ 3.7	Q1	+ 3.5
Portugal	+ 1.8	May	+ 2.4	na	na	+ 3.9	May	+ 1.9	– 1.6	Apr	– 1.4

*New series. RPI inflation rate 2.9% in Jun. †Mar-May.

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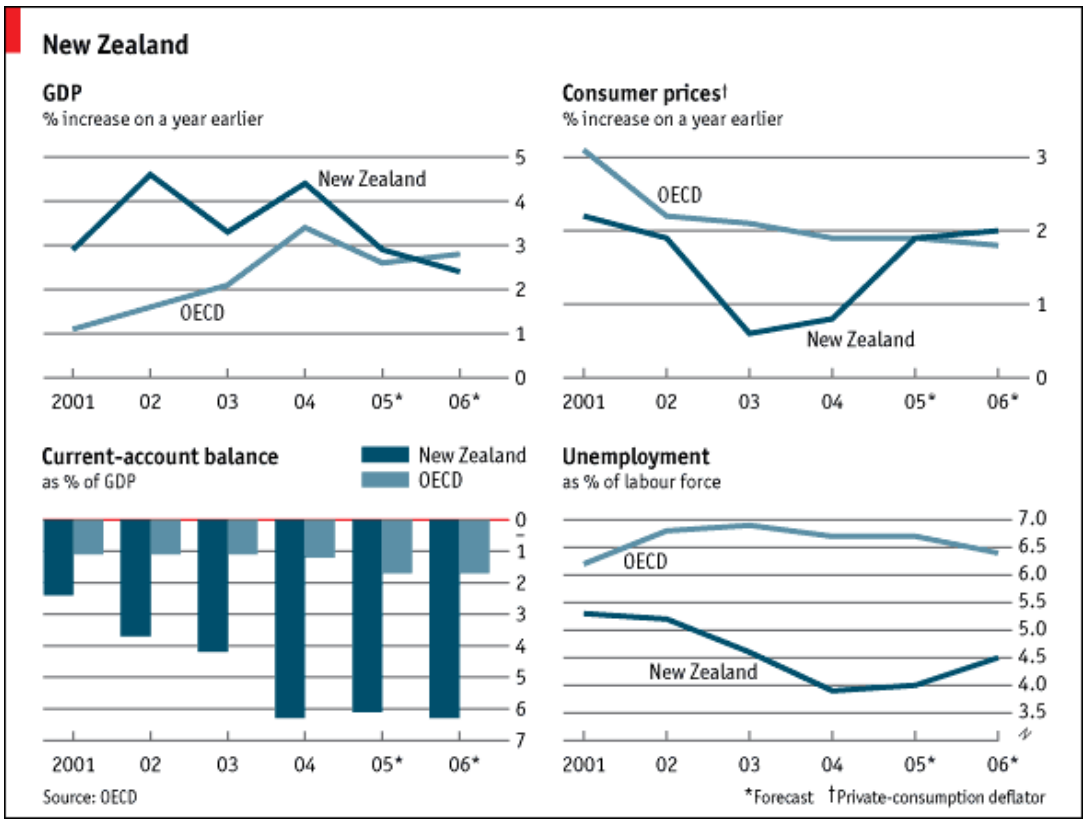
New Zealand

Jul 14th 2005
From The Economist print edition



The country's economy has enjoyed one of the fastest growth rates among OECD members over the past few years. Since 2001 New Zealand's economy has grown by an annual average of 3.8%, well above the OECD average of 2.0%. In its latest survey of New Zealand, the OECD says that this is the deserved reward for the country's wide-ranging economic reforms over the past 20 years. However, it forecasts that growth will slow over the next year to 2.4% in 2006—slightly below the OECD average for the first time in six years. New Zealand's unemployment rate is also well below the OECD average, and at 4% of GDP last year its budget surplus is one of the biggest among rich countries. The economy's Achilles heel is its current-account deficit of more than 6% of GDP. The OECD says that New Zealand's main challenge is to raise productivity growth, which remains below the rich-world's average.

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Money and interest rates

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	Money supply* % change on year ago			Interest rates % a year (Jul 13th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 5.4	+ 9.2	May	5.65	5.45	5.21	5.24	5.72	6.27
Britain	+ 4.3	+11.6	May	4.63	4.80	4.10	4.31	5.10	5.20
Canada	+10.3	+ 9.8	May	2.52	2.03	3.07	4.00	4.82	5.29
Denmark	+16.2	+ 9.0	May	2.20	2.25	2.18	3.19	4.36	4.92
Japan	+ 4.4	+ 1.7	Jun	0.02	0.03	0.08	1.25	1.74	1.48
Sweden	+ 2.5	+ 4.7	May	1.48	1.98	1.88	3.06	4.51	2.72
Switzerland	- 7.3	+ 2.3	May	0.75	0.49	0.94	1.98	2.81	1.96
United States	+ 2.7	+ 4.3	May	3.42	1.46	3.83	4.16	4.48	5.07
Euro area†	+10.1	+ 7.3	May	2.12	2.12	2.20	3.22	4.22	3.45

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 4.40%, Japan No. 271 1.26%. Central bank rates: US fed funds 3.25%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jul 14th 2005
From The Economist print edition

2000=100

	Jul 5th	Jul 12th*	% change on one month	% change on one year
Dollar index				
All items	134.1	135.4	+ 1.5	+ 2.1
Food	131.0	129.7	+ 0.3	- 1.9
Industrials				
All	138.1	142.9	+ 2.8	+ 7.3
Nfa†	135.3	136.4	+ 6.0	+ 2.0
Metals	139.6	146.4	+ 1.3	+10.1
Sterling index				
All items	115.9	115.8	+ 3.4	+ 6.9
Euro index				
All items	104.1	102.7	+ 0.2	+ 3.1
Yen index				
All items	139.0	139.4	+ 3.0	+ 3.8
Gold				
$ per oz	423.15	426.65	- 0.0	+ 6.3
West Texas Intermediate				
$ per barrel	59.57	60.53	+10.2	+53.2

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005

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Stockmarkets

Jul 14th 2005
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Market indices

	Jul 13th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,240.2	4,267.3	3,905.5	+ 0.1	- 0.6	+ 4.6	- 0.2
Austria (ATX)	3,069.8	3,099.5	2,415.0	- 0.5	- 1.0	+26.3	+12.3
Belgium (Bel 20)	3,137.6	3,197.3	2,958.8	+ 0.5	-14.8	+ 7.0	- 4.8
Britain (FTSE 100)	5,245.9	5,245.9	4,783.6	+ 0.3	-24.3	+ 9.0	- 0.4
Canada (Toronto Composite)	10,203.6	10,217.7	9,006.2	+ 0.9	-10.4	+10.3	+ 9.5
Denmark (KBX)	315.8	316.0	257.8	+ 0.5	- 0.1	+22.5	+ 8.7
France (SBF 250)	3,021.0	3,021.0	2,633.6	+ 1.5	-31.2	+14.7	+ 2.0
(CAC 40)	4,343.6	4,343.6	3,816.1	+ 1.5	-37.3	+13.7	+ 1.1
Germany (DAX)*	4,679.9	4,679.9	4,178.1	+ 1.4	-42.0	+10.0	- 2.2
Italy (S&P/MIB)	33,124.0	33,124.0	30,645.0	+ 1.2	-33.9	+ 7.2	- 4.6
Japan (Nikkei 225)	11,659.8	11,966.7	10,825.4	+ 0.5	-70.0	+ 1.5	- 7.3
(Topix)	1,185.7	1,203.3	1,109.2	+ 0.2	-58.9	+ 3.1	- 5.8
Netherlands (AEX)	391.9	391.9	347.0	+ 0.4	-44.1	+12.6	+ 0.2
Spain (Madrid SE)	1,076.3	1,076.3	950.9	+ 1.3	- 6.1	+12.2	- 0.2
Sweden (Affarsvarlden Gen)	256.4	256.4	218.9	+ 2.2	-35.9	+15.9	- 0.7
Switzerland (Swiss Market)	6,393.8	6,393.8	5,669.6	+ 1.3	-24.0	+12.3	- 0.9
United States (DJIA)	10,557.4	10,940.6	10,012.4	+ 2.8	- 9.9	- 2.1	- 2.1
(S&P 500)	1,223.3	1,225.3	1,137.5	+ 2.4	-19.9	+ 0.9	+ 0.9
(NASDAQ Comp)	2,144.1	2,152.2	1,904.2	+ 3.6	-57.5	- 1.4	- 1.4
Europe (FTSEurofirst 300)†	1,159.5	1,159.5	1,038.6	+ 0.2	-32.0	+11.3	- 1.0
Euro area (FTSE Euro 100)†	990.6	990.6	894.4	+ 1.0	-36.1	+10.0	- 2.2
World (MSCI)‡	1,171.4	1,193.0	1,115.0	+ 1.9	-19.1	+ 0.2	+ 0.2
World bond market (Citigroup)††	632.1	662.3	629.6	+ 0.3	- 4.6	- 5.1	- 5.1

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jul 14th 2005
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	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2005	2006	Exchange rate trade-weighted† 2000=100 Jul 13th	year ago	Currency units per $ Jul 13th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2005‡
Australia	− 18.1	May	− 42.4	Q1	− 5.8	− 5.5	116.8	111.2	1.34	1.38	2.35	1.62	1.19	+ 0.9
Austria	+ 0.1	Apr	+ 0.6	Apr	− 0.4	− 0.4	104.5§	103.9	0.83	0.81	1.45	–	0.74	− 2.0
Belgium	+ 16.7	Mar	+ 8.6	Apr	+ 3.0	+ 3.0	105.2§	104.3	0.83	0.81	1.45	–	0.74	− 0.5
Britain	−111.9	May	− 44.0	Q1	− 2.4	− 2.5	98.0	102.3	0.57	0.54	–	0.69	0.51	− 2.9
Canada	+ 47.5	May	+ 20.2	Q1	+ 1.3	+ 1.1	119.9	109.2	1.21	1.32	2.12	1.46	1.08	+ 1.2
Denmark	+ 9.2	May	+ 11.0	May	+ 2.0	+ 1.9	105.9	106.1	6.17	6.00	10.8	7.46	5.50	+ 1.8
France	− 26.0	May	− 19.4	Apr	− 0.6	− 0.3	107.8§	106.8	0.83	0.81	1.45	–	0.74	− 3.0
Germany	+195.8	May	+105.7	May	+ 3.5	+ 3.3	105.7§	104.5	0.83	0.81	1.45	–	0.74	− 3.5
Italy	− 6.1	Apr	− 19.0	Apr	− 1.2	− 1.3	77.2§	76.5	0.83	0.81	1.45	–	0.74	− 4.4
Japan	+115.9	May	+167.8	May	+ 3.6	+ 3.5	85.7	87.2	112	109	197	136	–	− 6.1
Netherlands	+ 40.7	May	+ 33.9	Q1	+ 3.7	+ 3.6	104.6§	103.7	0.83	0.81	1.45	–	0.74	− 2.2
Spain	− 85.7	Apr	− 65.8	Mar	− 5.2	− 5.3	77.6§	77.2	0.83	0.81	1.45	–	0.74	+ 0.5
Sweden	+ 22.8	May	+ 29.7	Q1	+ 7.0	+ 6.4	95.7	98.1	7.76	7.41	13.6	9.38	6.91	+ 0.8
Switzerland	+ 6.6	May	+ 40.8	Q4	+11.4	+10.8	106.0	108.5	1.29	1.23	2.26	1.56	1.15	− 1.0
United States	−717.9	May	−717.0	Q1	− 6.3	− 6.2	86.2	86.3	–	–	1.75	1.21	0.89	− 4.1
Euro area	+ 69.0	Apr	+ 27.9	Apr	+ 0.5	+ 0.4	116.1	115.5	0.83	0.81	1.45	–	0.74	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.8	May	+ 6.5	May	na	na	82.1§	81.4	0.83	0.81	1.45	–	0.74	+ 1.3
Greece	− 33.5	Apr	− 11.6	Apr	na	na	60.2§	59.8	0.83	0.81	1.45	–	0.74	− 3.8
Iceland	− 0.8	May	− 1.4	Q1	na	na	109.0**	96.5	65.8	71.2	115	79.6	58.6	+ 1.1
Ireland	+ 40.6	Apr	− 3.1	Q1	na	na	95.3§	93.8	0.83	0.81	1.45	–	0.74	− 0.7
Luxembourg	− 4.3	Apr	+ 2.9	Q4	na	na	105.2§	104.3	0.83	0.81	1.45	–	0.74	− 0.8
New Zealand	− 3.4	May	− 7.0	Q1	na	na	132.8	128.0	1.49	1.53	2.61	1.80	1.33	+ 3.2
Norway	+ 41.9	May	+ 37.9	Q1	na	na	110.8	102.4	6.64	6.85	11.7	8.03	5.92	+ 14.4
Portugal	− 20.1	Apr	− 14.4	Apr	na	na	94.5**	93.6	0.83	0.81	1.45	–	0.74	− 5.3

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, May average. ‡OECD forecast. **IMF, March average.

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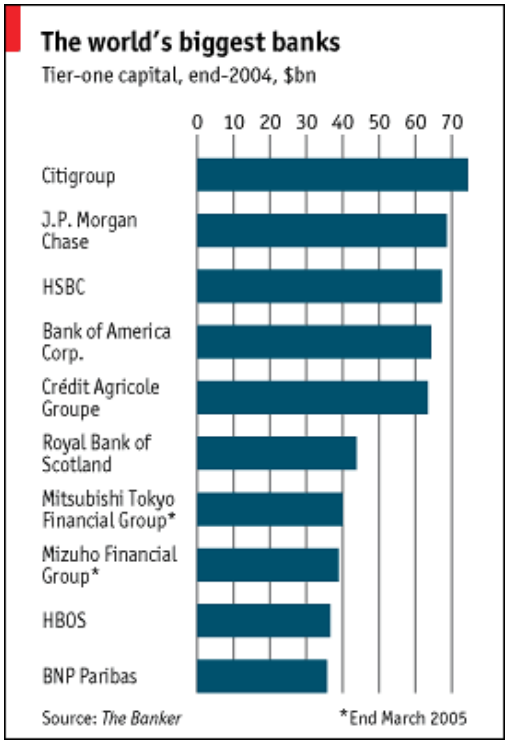
The world's biggest banks

Jul 14th 2005
From The Economist print edition



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Overview

Jul 14th 2005
From The Economist print edition

Industrial production in **India** rose by 10.8% in the year to May. Over the same period, it increased by 5.5% in **Brazil**, 3% in **Mexico** and 2.1% in **Turkey**.

China's trade surplus swelled to $79.2 billion in the 12 months to June. **Russia's** increased to $105.5 billion in the year to May. **Turkey's** trade deficit rose to $37.4 billion over the same period.

In **Singapore**, GDP rose unexpectedly fast, by 3.9% in the year to the second quarter.

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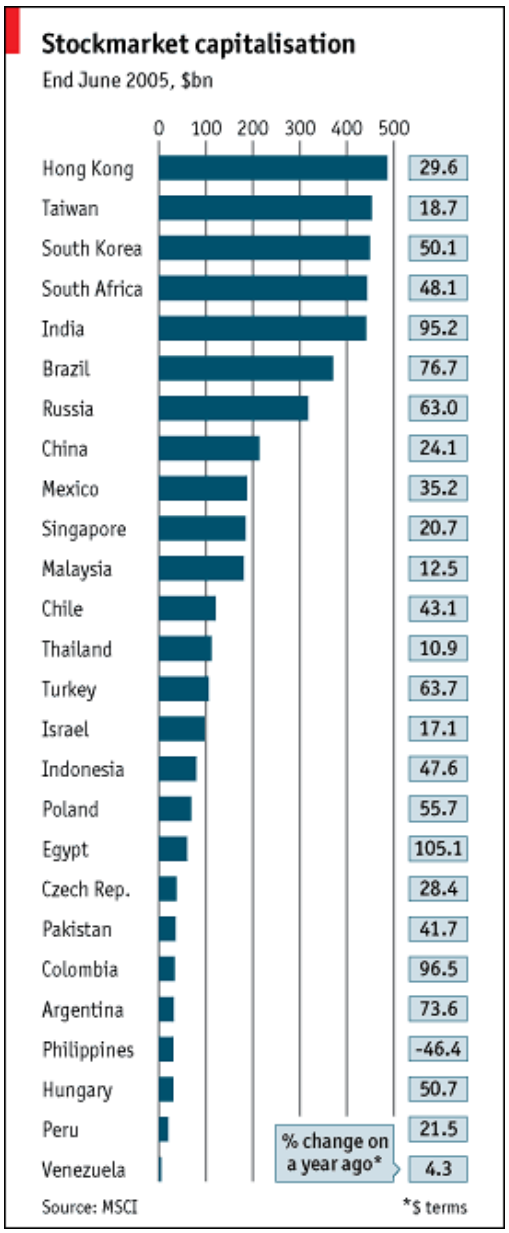
Stockmarket capitalisation

Jul 14th 2005
From The Economist print edition

In many emerging economies stockmarkets grew rapidly over the past year, according to Morgan Stanley Capital International. The combined value of the shares quoted on Egypt's modest bourse more than doubled. India's much larger market grew almost as quickly and Brazil's increased strongly. But the equity culture took a backwards step in the Philippines, where the value of listed shares nearly halved.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.4	Q1	+16.6	May	+ 1.8	May	+79.2	Jun	+68.7	2004	711.0	Jun
Hong Kong	+ 6.0	Q1	– 0.6	Q1	+ 0.8	May	–10.3	May	+18.5	Q1	122.0	Jun
India	+ 7.0	Q1	+10.8	May	+ 3.7	May	–30.6	May	– 6.4	Q1	127.0	Jun
Indonesia	+ 6.4	Q1	+10.1	Mar	+ 7.4	Jun	+27.6	May	+ 7.8	Q1	33.3	May
Malaysia	+ 5.7	Q1	nil	May	+ 3.1	May	+23.2	May	+16.7	Q1	74.1	May
Philippines	+ 4.6	Q1	+ 2.5	Apr	+ 7.6	Jun	nil	Mar	+ 2.9	Mar	15.1	Jun
Singapore	+ 3.9	Q2	+ 1.7	May	nil	May	+16.6	May	+29.2	Q1	115.2	Jun
South Korea	+ 2.7	Q1	+ 4.3	May	+ 2.7	Jun	+27.0	Jun	+23.0	May	206.0	May
Taiwan	+ 2.5	Q1	– 1.4	May	+ 2.4	Jun	+ 2.7	Jun	+16.9	Q1	253.6	Jun
Thailand	+ 3.3	Q1	+ 8.0	May	+ 3.8	Jun	– 4.4	May	+ 0.1	May	47.1	May
Argentina	+ 8.0	Q1	+ 6.3	May	+ 9.0	Jun	+11.2	May	+ 2.8	Q1	21.4	May
Brazil	+ 2.9	Q1	+ 5.5	May	+ 7.3	Jun	+38.3	Jun	+13.4	May	60.7	May
Chile	+ 5.7	Q1	+ 6.8	May	+ 2.7	Jun	+ 9.0	Jun	+ 1.1	Q1	17.3	May
Colombia	+ 3.6	Q1	+ 4.5	Apr	+ 4.8	Jun	+ 1.5	Apr	– 0.8	Q1	12.2	May
Mexico	+ 2.4	Q1	+ 3.0	May	+ 4.3	Jun	– 9.9	May	– 8.7	Q1	61.9	May
Peru	+ 6.4	Apr	+ 7.1	Apr	+ 1.5	Jun	+ 3.3	Apr	+ 0.4	Q1	13.0	Jun
Venezuela	+ 7.9	Q1	+28.2	Apr	+15.9	Jun	+22.6	Q1	+14.9	Q1	22.3	May
Egypt	+ 4.7	Q4	+ 3.3	2004†	+ 4.7	Apr	– 9.5	Q1	+ 4.4	Q1	18.2	May
Israel	+ 4.1	Q1	+12.8	Apr	+ 0.2	May	– 7.6	Jun	+ 1.9	Q1	26.5	Jun
South Africa	+ 4.2	Q1	+ 1.2	May	+ 3.3	May	– 2.7	May	– 8.5	Q1	16.9	Jun
Czech Republic	+ 4.4	Q1	+ 4.0	May	+ 1.8	Jun	+ 0.7	May	– 4.4	Q1	30.1	Jun
Hungary	+ 2.9	Q1	+10.1	May	+ 3.8	Jun	– 2.7	Q1	– 9.2	Q1	17.5	May
Poland	+ 2.1	Q1	+ 0.9	May	+ 2.5	May	– 3.6	May	– 1.1	May	39.3	May
Russia	+ 5.2	Q1	+ 1.4	May	+13.3	Jun	+105.5	May	+69.3	Q1	147.8	Jun
Turkey	+ 4.8	Q1	+ 2.1	May	+ 9.0	Jun	–37.4	May	–18.2	May	35.8	May
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 7.2	Q1	+ 8.4	May	+ 3.1	Jun	– 2.4	Apr	– 1.3	Apr	1.7	May
Latvia	+ 7.4	Q1	+ 9.9	May	+ 6.3	Jun	– 3.0	Apr	– 1.6	Apr	2.0	May
Lithuania	+ 5.6	Q1	na		+ 2.0	Jun	– 3.1	May	– 1.5	Q1	3.5	May
Slovakia	+ 5.1	Q1	+ 1.5	May	+ 2.5	Jun	– 2.1	May	– 1.9	Mar	15.7	May
Slovenia	+ 2.6	Q1	+ 1.3	May	+ 1.9	Jun	– 1.3	May	nil	May	8.4	Apr
Pakistan	+ 6.4	2004†	+ 9.6	Jan	+ 8.7	Jun	– 6.2	Jun	– 1.5	Q1	10.4	May
Saudi Arabia	+ 5.2	2004	na		+ 0.6	Mar	+84.9	2004	+51.5	2004	26.7	May

*Excluding gold, except Singapore; IMF definition. †Year ending June.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Jul 14th 2005
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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jul 13th		Dec 31st 2004	
	Jul 13th	year ago	Jul 13th	% a year		one week	in local currency	in $ terms
China	8.28	8.28	14.5	4.66	1,089.8	+0.4	– 18.1	– 18.1
Hong Kong	7.78	7.80	13.6	3.40	14,307.3	+1.1	+ 0.5	+ 0.5
India	43.5	45.9	76.3	5.39	7,247.9	-0.5	+ 9.8	+ 9.7
Indonesia	9,793	8,960	17,183	8.85	1,132.8	+1.3	+ 13.3	+ 7.4
Malaysia	3.80	3.80	6.67	2.88	913.1	+1.1	+ 0.6	+ 0.6
Philippines	56.3	55.9	98.8	7.38	1,854.0	+2.3	+ 1.7	+ 1.4
Singapore	1.69	1.70	2.97	2.00	2,239.0	+0.2	+ 8.4	+ 4.4
South Korea	1,038	1,153	1,821	3.52	1,050.2	+3.1	+ 17.2	+ 17.0
Taiwan	31.9	33.7	55.9	1.45	6,377.1	+2.5	+ 3.9	+ 3.2
Thailand	41.9	40.8	73.5	2.83	658.4	-0.2	– 1.5	– 8.6
Argentina	2.87	2.95	5.04	6.75	1,423.4	+5.0	+ 3.5	+ 7.1
Brazil	2.34	3.02	4.11	19.72	25,855.0	+5.5	– 1.3	+ 11.8
Chile	581	631	1,020	3.84	9,535.1	+0.8	+ 6.4	+ 1.8
Colombia	2,327	2,662	4,083	7.11	5,738.4	+3.0	+ 32.0	+ 33.5
Mexico	10.7	11.5	18.8	9.61	14,005.2	+1.6	+ 8.4	+ 13.0
Peru	3.25	3.44	5.71	3.25	4,123.1	+1.5	+ 11.1	+ 12.0
Venezuela	2,636§	2,602§	4,626	12.03	21,267.1	-2.9	– 29.0	– 30.6
Egypt	5.78	6.21	10.15	7.90	42,828.8	-0.9	+ 74.2	+ 82.9
Israel	4.54	4.50	7.96	3.64	673.6	+2.5	+ 4.6	– 0.4
South Africa	6.67	6.05	11.7	7.10	14,671.9	+1.9	+ 15.9	– 2.2
Czech Republic	25.0	25.4	43.9	1.76	1,237.2	+1.3	+ 19.9	+ 6.9
Hungary	204	201	358	6.70	19,779.9	+0.9	+ 34.2	+ 18.8
Poland	3.43	3.59	6.02	4.69	29,480.6	+2.0	+ 10.7	– 3.4
Russia	28.6	29.1	50.3	13.00	758.1‡	+2.4	+ 27.6	+ 23.4
Turkey	1.33	1.43	2.34	16.56	28,061.9	+1.0	+ 12.4	+ 13.6
EM (MSCI)*	1.00	1.00	1.75	na	583.4	+3.2	+ 7.6	+ 7.6
EMBI+†	1.00	1.00	1.75	na	347.3	+0.5	+ 5.4	+ 5.4

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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